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COMMISSION STAFF WORKING DOCUMENT

Summary of Executive summaries

Internal audit engagements finalised by the IAS in 2014

Accompanying the document

Report from the Commission to the European Parliament and the Council

**Annual report to the Discharge Authority on Internal audits carried out in 2014 (Art
99(5) of the Financial Regulation)**

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CONTENT OF THIS STAFF WORKING DOCUMENT (SWD)

This SWD contains the introduction, the objectives and scopes, the strengths and the critical and very important recommendations of the original executive summaries reflecting the state of play when the audit engagements were finalised (cut-off date for the exercise 31/01/2015).

Each executive summary underwent the applicable standard professional validation and contradictory procedures between auditor and auditee at the time of the finalisation. It aims to provide a quick understanding of the audit and its main results.

1. STATISTICAL DATA

1.1. Implementation of the 2014 audit plan¹

By the cut-off date of 31 January 2015, the IAS.B had implemented² 100% of its planned engagements (target 100%).

One hundred and five reports (including audits, follow-ups, limited reviews, risk assessments and one management letter) were finalised, broken down as follows:

	2014		2013		2012	
	Engagements	Reports	Engagements	Reports	Engagements	Reports
Audit	25 ³	31 ⁴	22 ⁵	23	29	49
Follow-up	53	67	48	59	32	37
(Limited) Review	5	5	4	4	1	1
Management Letter	1	1	1	1	1	1
IT Risk Assessment	1	1	0	0	0	0
Consulting	0	0	0	0	1	1
Total⁶	85	105	75	87	64	89

¹ See also IAS's Annual Activity Report 2014.

² The Annex provides an overview of all completed audit and follow-up audit engagements.

³ The "Gap analysis of new legislation/design of 2014-20 programming period of European Structural and Investment Funds – Part 2" addressed to DG REGIO and DG EMPL is counted as two engagements.

⁴ Some audits, in particular multi-DG audits, may give rise to more than one audit report.

⁵ The "Audit on Control Strategy - Implementation in DG AGRI" is counted as two engagements conducted by two different audit teams resulting in a single audit report.

⁶ The variation in the number of engagements and reports is not a suitable indicator on the workload as the individual engagements may vary in length.

In order to ensure an efficient and effective implementation of the audit plan, the IAS plans its audit work on the basis of a risk assessment and a capacity analysis. The implementation is then regularly monitored and adjustments are made as necessary.

1.2. Statistical data on IAS recommendations

The IAS issued the following number of recommendations (including their acceptance rate) in 2014:

	New recommendations	Accepted recommendations		Non-accepted recommendations	
<i>Priority</i>			%		%
Critical	0	0	N.A.	0	N.A.
Very Important	50	50 ⁷	100%	0	0%
Important	77	75	97%	2 ⁸	3%

⁷ One recommendation rated 'very important' addressed to FPI was only partially accepted. The IAS recommended better documentation of the decision-making process for recoveries. FPI considered that they had taken several initiatives to improve this; however, the IAS audit revealed that weaknesses remained despite these initiatives. The IAS proposed this report for discussion at the APC. However, given the time that elapsed from finalising the audit and setting up the new APC, it was decided more practical to discuss this report in the context of a first follow-up, if significant issues arise.

A second recommendation rated 'very important' addressed to DG REGIO was also only partially accepted. The IAS recommended that DG REGIO should develop guidance to the Member States on calculating the achieved leverage effect of financial instruments (i.e. capacity to attract additional public and private funding) to show the net effect of the leverage brought about by the use of financial instruments and to ensure that this is properly reported in the annual summary reports on financial instruments' implementation. DG REGIO considered that removing the national co-financing from the leverage concept would artificially lower the achieved leverage especially in cases when national co-financing is provided by private investors. According to the IAS, assessing the ability of financial instruments to attract new investment, and reporting on this, would be entirely in line with the Commission's move towards a more performance-based culture, particularly given the increased importance of this funding mechanism in the 2014-20 period. This report was not proposed by the IAS for discussion at the APC due to the relatively early stage of financial instruments in their life cycle. The APC may decide to have a discussion, in particular in the context of the first follow-up if significant issues arise.

⁸ The IAS recommended in its audit on contribution agreements with international organisations that DG DEVCO take appropriate steps to enable it to assess the achievement of project objectives and performance targets, by developing and disseminating best practices to Headquarters units and EU Delegations regarding project monitoring and reporting, such as reporting examples and guidance on budget. DG DEVCO rejected this recommendation as they consider that it would not be in line with the financial rules applicable to indirect management, by which the international organisations decide on their reporting and budget templates. The IAS drew the DG's attention to the fact that this recommendation did not relate to the legal framework but to a management issue.

The IAS recommended in its audit on "Assurance Building Process in EU Delegations" that DG DEVCO should require EU Delegations (EUDs) to (i) analyse the root cause of errors detected during the DG's annual Residual Error Rate (RER) study, and (ii) if and when systemic errors or fraud-related issues are identified during this study, to include these in the EUDs' subsequent External Assistance Management Reports (EAMR) (on the implementation of EU development and cooperation aid including the Head of Delegation's statement of assurance on the management of funds sub-delegated to him) together with any actions taken to mitigate the risks. DG DEVCO rejected the recommendation on the basis that the results of the RER study are not representative for individual Delegations and that the RER study is only available

Desirable	0	0	N.A.	0	N.A.
Total	127	125	98%	2	2%

For all accepted recommendations, the auditees drafted action plans⁹, which were submitted to and assessed as satisfactory by the IAS.

The implementation of the accepted recommendations made during the period 2010-2014, as assessed by auditees, as at 31 January 2015 was as follows¹⁰:

Year	Priority	Total	Implemented		In progress (by number of months overdue)					
			No.	%	No.	%	No delay	0 - 6	6 - 12	12+
2010	Critical	2	2		0		0	0	0	0
	Very Important	120	112		8		0	0	0	8
	Important	151	148		3		0	0	0	3
	Desirable	10	10		0		0	0	0	0
	2010 Total	283	272	96,1%	11	3,9%	0	0	0	11
2011	Critical	0	0		0		0	0	0	0
	Very Important	47	47		0		0	0	0	0
	Important	101	98		3		0	0	0	3
	Desirable	10	10		0		0	0	0	0
	2011 Total	158	155	98,1%	3	1,9%	0	0	0	3
2012	Critical	0	0		0		0	0	0	0
	Very Important	71	59		12		3	2	2	5
	Important	120	105		15		5	1	2	7
	Desirable	0	0		0		0	0	0	0
	2012 Total	191	164	85,9%	27	14,1%	8	3	4	12
2013	Critical	0	0		0		0	0	0	0
	Very Important	53	34		19		13	4	2	0
	Important	68	44		24		6	13	5	0
	Desirable	6	6		0		0	0	0	0

after the completion of the EAMR and is just one of the tools through which fraud can be identified. The IAS replied to the DG by stressing that the recommendation focuses on the mitigation of systemic and fraud-related risks, if any, that had not been detected by all previous controls, and also on the EUDs reporting on this in the EAMR, and does not require the EUDs to use the RER study results to measure their weaknesses.

⁹ Except in cases where the IAS made only general recommendations (e.g. where the engagements were only the first phase of a wider series of engagements) which DGs should take into account but which did not lead to action plans as such (for details, see the Gap Analysis reviews (phase 1) in sections 3.2.1, 3.3.1 and 3.3.2 below).

¹⁰ It should be noted that the table reflect the current priority rating of the recommendations and takes account of any downgrading of recommendations (for instance from 'very important' to 'important', e.g. following a follow-up audit. This explains differences to previous years' reports.

	2013 Total	127¹¹	84	66,1%	43	33,9%	19	17	7	0
2014	Critical	0	0		0		0	0	0	0
	Very Important	50	2		48		44	4	0	0
	Important	75	12		63		56	7	0	0
	Desirable	0	0		0		0	0	0	0
	2014 Total	125	14	11,2%	111	88,8%	100	11	0	0
TOTAL 2010-2014		884	689	77,9%	195	22,1%	127	31	11	26
Thereof Critical or Very Important		343	256	74,6%	87	25,4%	60	10	4	13

Out of all recommendations rated 'very important' or 'critical' and issued in the period 2010-2014, 17 very important recommendations (2%) were overdue by more than six months with respect to the deadline set in the initial action plan¹². No critical recommendation is outstanding. The Audit Progress Committee (APC) was regularly informed of critical or very important recommendations overdue for more than six months.

The total number of accepted recommendations issued during 2010-2014 and for which the IAS had conducted follow-up audits by the end of 2014, amounts to 640 (72%).

The follow-up work carried out by the IAS confirmed that overall recommendations are being implemented in a satisfactory way thus contributing to the improvement of the control systems in the audited services. The IAS closed 95% of the recommendations followed-up during this period.

2. HORIZONTAL AUDITS

2.1. Audit on efficiency and effectiveness of the planning stage of the selection process - Multi DG (EPSO, DG HR, DG CNECT, DG SANCO – now DG SANTE, DG TAXUD)

Background

¹¹ The difference to the figures presented in the 99.5-report covering the year 2013 relates to seven identical recommendations addressed to both DGs RTD and CNECT and stemming from the 2013 audit on SYGMA - Phase 1. These seven recommendations were inadvertently counted twice in the report and is now corrected, which explains the difference to last year's report.

Furthermore, it should be noted that the two DGs did not accept one part of a recommendation rated 'very important' in the end while at the time of preparation of the 99.5-report covering the year 2013, the DGs signalled full acceptance. The rejected part related to the identification of the full cost of the IT project (SYGMA), pending a decision at the level of the IT governance bodies of the Commission to provide a single methodology to calculate the costs of an IT project. The IAS considers that the DGs have at their disposal basic guidance to adequately define the total cost of a project and therefore kept its recommendation.

¹² Cut-off date is 31 January 2014.

The human resources selection process is defined as the process of differentiating between applicants in order to identify those with greater likelihood of success in the job.

Within the European Institutions (EU Institutions), the selection process should allow the recruitment of candidates with "*the highest standard of ability, efficiency and integrity*"¹³.

Two key players intervene in the EU Institutions' staff selection process, notably:

- (a) the European Personnel Selection Office (EPSO), that since 2003 "organises open competitions with a view to securing the services of officials on optimal professional and financial terms for the institutions of the European Communities"¹⁴ and manages the reserve lists;
- (b) the EU Institutions, which are responsible for defining their staff needs and for recruiting staff from the pool of candidates placed by EPSO on reserve lists.

Audit Objectives and scope

The overall objective of the audit was to assess the effectiveness and efficiency of the current planning stage of the selection process in replying to the EU Institutions' needs of new staff.

The audit covered the planning processes in place in EPSO and in the European Commission. In particular, it focused on:

- *At EPSO level:* the review of the requests transmitted by the EU Institutions, the monitoring of the reserve lists and the planning for new competitions, as well as the coordination of the whole exercise;
- At European Commission's level:
 - DG HR's coordination and monitoring activities, the identification of the Commission's needs based on the Workforce Simulator (WFS), the reliability of the data and criteria used for the assessment of needs;
 - Operational DGs'/Services' methods to determine their needs of new staff, the reliability of data used and the adequacy of the local HR tools available.

Concerning the operational DGs/Services, the present audit analysed the procedures in place in DG CNECT, DG SANCO and DG TAXUD. The results of other IAS audits

¹³ Staff Regulations, Art.27, Chapter 1 Recruitment, Title III Career of Officials.

¹⁴ Decision 2002/620/EC establishing a European Communities Personnel Selection Office (EPSO).

related to HR topics¹⁵, performed in 2012-2013, have been taken into account where relevant, in order to provide an overview of the situation at Commission level.

There are no observations/reservations in the AAR of the DGs/Services covered by this engagement that relate to the area/process audited.

The fieldwork was finalised on 30/01/2014. All observations and recommendations relate to the situation as of that date.

Strengths

a) At EPSO level

- implementation of a three-year rolling plan and strategic annual planning exercise to predict and agree staffing needs with the EU Institutions;
- introduction of a regular cycle of competitions for the main generalist profiles, organised according to a fixed timetable;
- regular monitoring of the recruitment rate from the reserve lists and feedback provided to the EU Institutions on the subject, during the monthly meetings of the EPSO Working Group.

b) At Commission level

- implementation of the automated Workforce Simulator tool (WFS) to estimate the number and profiles of officials leaving the Commission in the coming years;
- close monitoring of the recruitment requests from DGs and of the use of reserve lists.

Major Audit Findings

The IAS has identified the following two very important issues:

EPSO planning exercise (report finding N° 1)

EPSO did not provide guidelines and instructions to foster a common understanding of the requirements which should result in a common method for assessing the need for laureates across the EU Institutions, and did not ask the Institutions to provide sufficient details on the criteria taken into account in the assessment of their requests for laureates with a view to preparing the draft planning of competitions based on comparable information. In addition, in the last three years most EU Institutions have been late in contributing to the annual planning exercise, delaying the launch of open competitions.

Planning exercise at Commission level – Role of the DGs (report finding N° 3)

¹⁵ Audits on "Management and monitoring of staff allocation in the Commission Services" (carried out in 2012 in DG HR, RTD, COMP, AGRI and DGT), "HR management in response to the financial crisis" (DG ECFIN, DG MARKT and DG COMP), and "Performance measurement systems" (DG EMPL and DG REGIO).

DGs/Services do not implement and use HR management (HRM) tools (strategic planning, unit management plan, task mapping, workload assessment) consistently to assess their current and future staff needs.

Recommendations

To address these issues, the IAS formulated the following recommendations:

- **EPSO planning exercise:**

EPSO should provide guidelines and instructions to the EU Institutions to increase the coherence and comparability of their requests for laureates and should ask them to provide sufficient details on the criteria taken into account with a view to correctly prioritising the requests and aligning the competitions to be organised with the Institutions' real needs and recruiting capacities. Better scheduling of the exercise, in agreement with the Institutions, should also help EPSO reduce delays and finalise its plan in a timely manner.

- **Planning exercise at Commission level – Role of the DGs:**

DGs/Services should implement HRM tools (e.g. strategic planning, unit management plans, workload assessment, competence/task mapping) consistently and use their output in the analysis of future recruitment needs.

The audited services have established action plans which the IAS considers satisfactory to address the recommendations.

<p>2.2. Horizontal IT audit : Audit of management and supervision of outsourced IT services (contract management) – Multi DG (DG BUDG, DG DIGIT, DG HOME, OP, DG SANCO – now DG SANTE)</p>

Background

The European Commission is continuously increasing the use of IT in most of its fields of activity. It therefore has to ensure that it is getting the best value for money from its investments in IT, which has consistently grown over the last years.

A significant part of the IT expenditure of the Commission is devoted to the outsourcing of IT services to internal or external providers. The benefits of outsourcing include quality improvements, flexibility, better risk management and freeing up internal resources to focus on core, value-adding activities.

Outsourcing should be viewed not just as a procurement management exercise (i.e. purchase of services) but also as a strategic management decision whereby third parties participate in the value chain through the provision of a service.

Therefore, a key factor is that by outsourcing an IT service, an organisation transfers the operational responsibility to the supplier, but remains accountable and hence has to ensure that the risks are being managed and there is continued delivery of value from the service provider.

If the outsourcing entity does not retain accountability for the outsourced IT services, its needs may not be clearly defined and/or not clearly communicated to the supplier or the contractors' underperformance may not be timely detected or not adequately addressed. These may negatively affect the activities and the targets of the outsourcing entity and lead to ineffective use of financial resources. Consequently, the DGs/Services have to implement an appropriate structure (roles, responsibilities, procedures and controls) enabling a proper management and supervision of the outsourced IT services to ensure that the service providers deliver value for money.

In the Commission, the responsibilities are set up at the corporate and local level. At the corporate level DG DIGIT and DG Budget provide guidance, instructions and templates, develop training and manage framework contracts. These contribute to the environment facilitating the management of IT contracts by the operational DGs. At the local (operational) level, DGs/Services are responsible for defining needs, implementing individual contracts and ensuring that the services provided meet their requirements in quality, quantity and timeliness. This can be achieved through an effective contract management which includes a correct definition of the needs, a clear communication of the needs to the IT service provider and a continuous monitoring of the provider's performance.

Audit Objectives and Scope

The overall objective of the audit was to assess the effectiveness and efficiency of Commission's processes in place for the management and supervision of contracts for outsourced IT services with a view to ensuring that value for money is obtained.

The scope of the audit covered the environment¹⁶ created by the Central Services to facilitate the monitoring and supervision of IT contracts and the actions taken by the operational Services for managing and supervising the IT contracts. The audit included DG DIGIT (in its central and operational roles), DG Budget (in its central role) and a sample of operational Services (DG SANCO, DG HOME and the Publications Office).

There were no observations/reservations in the AAR of the DGs covered by the engagement that relate to the area/process audited.

The fieldwork was finalised in mid-November. All observations and recommendations relate to the situation as of that date.

Strengths

- Commission-level

DG Budget has developed detailed guidelines on procurement and templates of contracts for IT services that are available for all the operational Services of the Commission;

For the calls for tender for Commission-wide framework contracts, DG DIGIT prepares "Orientation documents" to take stock of the lessons learnt from previous

¹⁶ The environment encompasses guidance, sharing of good practices, training, and involvement of DGs in the definition of needs.

contracts and to identify the risks that could materialise during the procurement process and the related mitigating measures. It also involves the potential users in the DGs/Services in the definition of the needs;

DG DIGIT provides a comprehensive set of tools (i.e. e-Request, e-Ordering and e-Invoicing) facilitating the management of contracts for IT services and the relationship between the users in DGs and the contractors;

The main framework contracts recently concluded foresee explicit provisions for checking, before the signature of the specific contract, the education and professional experience of "intra muros" consultants;

All DG DIGIT framework contracts foresee the use of pre-defined KPIs to measure and monitor the performance of the contractors.

- Operational Services

Some good practices were identified, in particular as regards:

Clear procedure for the upstream phase (i.e. before launching a call for tender) enabling the proper identification of needs and of issues from previous contracts;

DG's policy on type of working mode (i.e. time and means, quoted time and means, fixed price) for outsourced IT services;

The use of an IT system for the management of intra muros staff;

The use of contractual clauses that allow immediate action in case of contractor underperformance.

Major Audit Findings for DG DIGIT

The IAS has identified the following three very important issues:

Estimation of needs before establishing a framework contract (report finding N° 1)

At Commission level, DG DIGIT's approach to estimate the needs is not consistent across the different framework contracts it manages, in particular regarding the timing of the collection of the needs, the level of detail requested from the DGs/Services and the metrics used to define the needs (euro, man-days, man-year). In addition, DG DIGIT does not propose criteria to operational Services to estimate their needs so as to ensure comparability of data. The lack of detailed statistics on the use of framework contracts does not allow DG DIGIT to assess adequately the reasonableness of the needs at Commission level.

At the operational level, some DGs/Services do not have a structured process to estimate the needs for their own framework contracts encompassing the definition of criteria that should be considered and identifying potential issues and/or lessons learnt from past contracts that should be addressed in the tender specifications. In some cases, this process is not sufficiently documented to allow a quality review of the tender

documentation (e.g. by the actors involved in the validation of the tender documents, such as the authorising officer).

Quality management of services outsourced on a time and means basis (report finding N° 2)

Although they had the possibility, none of the DGs/Services using IT consultants working on a time and means basis (i.e. intra muros) asked for supporting evidence of the education and working experience of the intra muros consultants, relying on the contractors' reliability for the information provided in the CVs.

The KPIs for measuring the contractors' performance under the Commission-wide framework contracts differ in terms of content and the way they have to be calculated. In addition, they do not allow capturing the performances of the contractors at the operational DG level and are not always reported to the end-users in the operational Services. The mechanism to apply liquidated damages in case of contractor underperformance is not the same for all framework contracts and appears to be too complex. As a result, it is rarely used.

For their own framework contracts, the operational Services have different levels of maturity for defining and using KPIs. In some contracts no KPIs are defined, in others KPIs are pre-defined by the DGs. In one case, the DG also includes the possibility for the contractor to provide additional KPIs.

Guideline on the choice of type of outsourcing (report finding N° 3)

At Commission level, there is no guidance on how the operational Services should assess their needs for intra or extra muros consultants and what criteria they should consider when choosing between different types of outsourcing, in order to have a coherent approach among Services. In addition, there is no analysis aiming at identifying the key factors that drive the choice of the operational Services, the advantages, disadvantages and the risks of each working mode.

The operational Services do not base their choice on the result of a cost-benefit analysis but on operational reasons. This decision is normally not re-assessed based on experience with past contracts. The sampled DGs show a high degree of heterogeneity for similar tasks, with some using exclusively intra muros consultants and others using extra muros consultants with an exceptional use of intra muros ones.

Recommendations

To address these issues, the IAS formulated recommendations which can be summarised as follows:

Estimation of needs before establishing a framework contract

DG DIGIT should strengthen the process to assess the needs of calls for tender for which it is *"chef de file"* by harmonising the surveys used, providing a minimum set of instructions to ensure DGs use similar estimation criteria and by using meaningful statistics to assess the reasonableness of the consolidated needs at Commission level.

DGs should implement a structured and traceable process based on pre-defined criteria, analysis of past issues and identification of risks related to the tender procedure.

Quality management of work outsourced on a time and means basis

DG DIGIT, in its central role, should harmonise and enhance the performance monitoring mechanism and how it is translated in the contractual arrangements. The DGs should take stock of the good practices implemented at corporate level and improve the performance measurement system for their own framework contracts.

Guideline on the choice of type of outsourcing

DG DIGIT, in its central role should identify the factors that drive the choice of the DGs/Services, the advantages, disadvantages and the risks of each type of outsourcing and issue guidance to help the operational DGs/Services choose the most appropriate working mode. At the operational level, the choice should be based on a cost-benefit analysis taking into consideration the particularities and constraints of the outsourced services.

Major Audit Findings for DG SANCO

The IAS has identified the following two very important issues:

Quality of tender documentation for DG SANCO's own framework contracts (report finding N° 1-SANCO)

Weaknesses were identified in three aspects of the DG's tender documentation for an in-house IT framework contract: a) validation of tender documents: a lack of guidance for ex-ante financial verifiers has resulted in inconsistencies in tender documents; b) internal guidance on procurement: there is currently no consolidated version of the DG's guidance on procurement and there is no flowchart covering the entire procurement procedure and the role of the actors intervening, including the responsibilities of the Public Procurement Committee; c) contractual provisions defining the acceptable level of service: DG SANCO's framework contracts do not define indicators and targets to accurately measure and monitor the overall performance of the contractor. In addition, the provisions for applying liquidated damages in cases of underperformance are not linked to an objective measurement of the contractor's performance.

DG SANCO's outsourcing strategy (report finding N° 2-SANCO)

Contrary to DG BUDG's guidance on using extra muros services as a rule and intra muros services as an exception, DG SANCO has opted for the opposite solution. The choice of working exclusively with Time & Means orders (i.e. intra muros services) is not based on a cost-benefit analysis (either at the DG level, or on a case by case basis, for each project) or on analysis of historical data, but mainly on the operational advantages of working with intra muros staff (e.g. adaptive planning, flexible and rapid response to changes). It should also be noted that an accurate cost-benefit analysis should factor in the use of Commission resources by intra muros staff. For these reasons, the claimed savings quantified by DG SANCO in its IT Master Plan, resulting from using intra

muros rather than extra muros development, are not justified and hence their correctness cannot be assessed.

Recommendations

To address these issues the IAS has formulated recommendations which can be summarised as follows:

Quality of tender documentation for DG SANCO's own framework contracts

In order to improve effectiveness of ex-ante controls and the quality of tender specifications DG SANCO should improve communication on tender content and context between operational and Finance and Control units and develop checklists for the process of validating tender documents. To clarify the roles and responsibilities of the different actors involved in the procurement procedure, including the Public Procurement Committee, DG SANCO should consolidate all procurement guidance in one document. To monitor and obtain assurance that the services provided by contractors meet the expected level, DG SANCO should include a minimum set of performance indicators in the tender specifications of its future IT related calls for tender.

DG SANCO's outsourcing strategy

DG SANCO should include in the Business Case of its IT projects an ex-ante cost benefit analysis of the various outsourcing options (Time and Means, Quoted Time and Means, Fixed Price) to identify the best solution for each particular project. In addition, during the lifetime of an IT project, the need to continue working with Time and Means orders should be reassessed at key points, e.g. when passing from the development to the maintenance phase, to ensure the best value for money when choosing the type of contract.

Major Audit Findings for the Office of Publications (OP)

The IAS has identified the following two very important issues:

Evaluation of OP's own call for tenders prior to publication (report finding N^o 1-OP)

Weaknesses were detected in the ex-ante evaluation procedure for OP calls for tender, in particular the use of an overly-complex questionnaire for evaluators. This has led in some cases to an incorrect estimation of needs. Consequently, the OP had to increase the maximum budgetary ceiling of the contract, where possible, or to launch a new call for tender earlier than foreseen, thus incurring additional costs for the Office.

Provisions in the tender specifications of OP's own calls for tender (report finding N^o 2-OP)

The Service Level Agreements (SLAs) incorporated into OP's own calls for tender are not currently implemented as stated in the tender specifications, either in terms of their function or content. A separate issue was identified at the evaluation stage of OP calls for tender: contrary to DG BUDG guidance, pre-defined KPIs are used as technical award criteria. There are also inconsistencies in evaluators' assessments of the additional KPIs submitted in tenderers' offers.

Recommendations

To address these issues the IAS has formulated recommendations which can be summarised as follows:

Evaluation of OP's own call for tenders prior to publication

To improve the quality of the evaluations of tenders and their added value for future tender procedures, OP should review the current ex-ante evaluation questionnaire to streamline and focus it on the most important points, e.g. needs estimation and lessons learned from previous contracts. Staff awareness of the importance of the evaluation process should also be raised, to improve the quality of information provided by evaluators.

Provisions in the tender specifications of OP's own calls for tender

To address the SLA issue, the OP should assess for each call for tender if an accompanying SLA is necessary and draft the tender specifications accordingly. In cases where an SLA is considered necessary for the execution of the contract, the tender specifications should clearly define its content and it should be signed together with the contract. On the issue of KPIs, the OP should follow the guidance of DG BUDG on both pre-defined and additional KPIs: pre-defined KPIs should no longer be used as a criterion for the qualitative assessment of offers as tenderers have to comply with them; optional elements such as additional KPIs should not be foreseen in the tender specifications.

The audited services have established action plans which the IAS considers satisfactory to address the recommendations.

<p>2.3. Audit on the administrative processes supporting the European Semester – Multi DG (SG, SJ, DG COMM, DG COMP, DG ECFIN, DG EMPL, DG MARKT, DG TAXUD)</p>
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Background

The IAS audit on the European Semester (ES) process was scheduled in the IAS audit work programme for 2014.

The ES has been designed to ensure that the Member States (MSs) discuss and coordinate their budgetary, macro-economic and structural reform plans with the EU institutions and other MSs at specific times throughout the year. Several deliverables are produced by the Commission, which involves a high level of coordination and cooperation between the DGs and Services. The ES process is relatively new as it was introduced in 2010 and executed for the first time in 2011.

Audit Objectives

The overall objective of this performance audit was to address the following question: *Are the administrative processes supporting the European Semester effective and efficient across the Commission?* The audit assessed the adequacy of the internal control system regarding the production and communication of the various ES deliverables.

Audit Scope

The audit focussed on the following main areas and addressed the corresponding sub-questions:

- Has the Commission put in place effective and efficient processes and procedures for the organisation and management of the ES?
- Has the Commission put in place effective and efficient processes and procedures for the planning, implementation and monitoring of the ES?
- Have the DGs put in place an effective and efficient resource management?
- Have the DGs set up an effective and efficient quality assurance/management programme to follow-up on the continuous improvement of the ES process in all its aspects?
- Are communication/information channels effective and efficient?
- Have the DGs put in place an effective and efficient document management system to ensure the security, including confidentiality and integrity of ES deliverables?

The following DGs were selected for this audit: SG, DG ECFIN, DG EMPL, DG TAXUD, DG COMM, DG COMP, DG MARKT and the Legal Service.

There were no observations in the relevant DGs' Annual Activity Reports (AARs) that relate to the process audited.

The fieldwork was finalised on 29/10/2014. All findings and recommendations relate to the situation as of that date.

Strengths

The European Semester (ES) coordinates a number of deliverables with different purposes emanating from the complex underlying legislation of the Stability and Growth Pact and the Macro-economic Imbalance Procedure. The scope of the ES covers the full range of the Europe 2020 strategy, leading to the involvement of several DGs and many people across the Commission. The ES calendar is constrained by dates fixed in the legal basis, the MS budgetary cycles, and requirements of the Council committees.

Taking into account that the first cycle of the ES started in 2011 and that it had to evolve over time, the auditors recognise the good results that the DGs involved have already achieved and that the Commission has consistently delivered its ES objectives under extremely tight deadlines.

The following major strengths in the ES process were identified.

- In general, efficient internal DG coordination and timely delivery of inputs in a very tight ES timetable. In each DG involved in the ES process, a well-structured and strong Central Coordination unit has been created.
- The professionalism and dedication of the staff involved, including working overtime, also contributed significantly to the achievement of the ES objectives.
- Creation of cross DGs Country Teams, coordinated by SG's Country Team Leaders.
- Creation of European Semester Officers (ESOs) in the Representations in the Member States and backup persons.
- In the course of the ES, several meetings are held to coordinate between DGs and to inform each other (e.g. meetings with Europe 2020 coordinators in DGs, country team leaders, ESOs, and Country Team meetings, Core group meetings and Council committee meetings).
- Good communication, exchange of information and implementing a no surprise approach with the MSs via bilateral meetings.
- Internal coordination of the preparation is very efficient for most key deliverables. Guidelines and templates exist in the SG and DG ECFIN and, in general, sufficient guidance is given for the units involved in the process. Guidance is also given in the periodic Country Team meetings, coordinated by the SG.
- After the closing of the ES, post-mortem exercises are held in several DGs involved in the ES cycle, which shows their willingness to continuously improve the whole process and working methods every year.
- Good quality training organised on the ES process open to Commission staff.

Major Audit Findings

The audit in the SG and the sampled DGs did not identify any issues that gave rise to critical or very important recommendations.

Overall, the audit showed that the administrative processes in the SG and the sampled DGs support the implementation of the European Semester across the Commission in an effective and efficient way.

3. AGRICULTURE, NATURAL RESOURCES AND HEALTH

3.1. Gap Analysis Review of 2014-2020 Regulations for the Common Agricultural Policy, Phase 1 - DG AGRI

Background

The Multi-annual Financial Framework provides for the new CAP period 2014-2020 for the preservation and management of natural resources a total of € 373 179 m,

representing some 38% of the total Commission expenditure for the period. Of this, € 277 851 m relates to Pillar 1, which includes market related expenditure and direct payments. The management of the European Structural and Investment Funds (ESI Funds), which, like CAP expenditure, is shared between the Member States (MS) and the Commission, involves overall commitment appropriations of €325 146 million in 2014-20 under heading 1b, with €84 936 million for the CAP - Pillar 2 under heading 2.

As part of the IAS Strategic Audit Plan 2013-2015, the IAS is carrying out a gap analysis review of the 2014-2020 Regulation for the CAP in 2014-2015. This is being conducted in two phases. Phase 1 consists of a review of the Common Provisions Regulation (CPR), the four basic regulations for the CAP - Direct Payments (Pillar 1), Single Common Market Organisation (Pillar 1), Rural Development (Pillar 2) and Horizontal Regulation for financing, managing and monitoring the CAP - and any relevant Delegated and Implementing Acts (DAs and IAs), to the extent they are available at the time of the audit. Phase 2 will be a more in depth examination of the design and preparations being made by DG AGRI for dealing with the new programming period.

There are six layers of rules: common provisions, general provisions, fund-specific provisions, DAs, IAs and Commission guidelines. The CPR was established to improve coordination and harmonised implementation of the Funds providing support under Cohesion Policy (ERDF, ESF and CF), with the Funds for Rural Development (EAFRD) and for the Maritime and Fisheries Sector (EMFF), together the five ESI Funds. Part II sets out common rules for the ESI Funds. For the AGRI area, the general rules on financing, management and monitoring have been set up in the regulation on the financing, management and monitoring of the Common Agricultural Policy (the "Horizontal Regulation"), covering the two funds. Specific rules applicable to each main area (Rural development, Market measures and Direct payments) were specified in separate regulations.

The CAP regulations empowers the Commission to adopt Delegated Acts with supplementary rules to cover certain non-essential elements and also Implementing Acts, which give effect to the rules which have already been laid down for the situations in which there is no need to establish any new rules or norms compared to the basic acts. The legislative package, comprising the CPR, the Horizontal Regulation for the CAP and the specific regulation for Cohesion and AGRI, was adopted on 17/12/2013 and for the EMFF on 20/05/2014.

Objectives

The main objective of the Phase 1 review was to highlight, for the most important areas, the additional risks the Commission is facing as a result of the new CAP regulations, taking account of the need to have an appropriate balance between reducing the administrative burden, but at the same time maintaining the necessary level of control for exercising its supervisory responsibilities under shared management.

Scope

The review covered to a limited extent the CPR (part II applicable to Rural Development), the associated secondary legislation where appropriate, the Horizontal

Regulation for the CAP and the fund-specific regulations for Direct Payments, Common Market Measures and Rural Development respectively.

There were no reservations relating to the new CAP period 2014-2020.

However, the following reservations were made in the 2013 AAR related to the previous period:

- Reservation 1: ABB02 – Expenditure on Market Measures: 7 aid schemes in 9 Member States (11 elements of reservation): Austria, the Czech Republic, France, Italy, Netherlands, Poland, Spain, Sweden and the United Kingdom.
- Reservation 2: ABB03 – Direct payments: 20 paying agencies, comprising 6 Member States: Spain (15 paying agencies), France, UK (RPA- England), Greece, Hungary and Portugal.
- Reservation 3: ABB04 – Rural development expenditure: 31 paying agencies, comprising 19 Member States: Belgium, Bulgaria, Cyprus, Germany (2 paying agencies), Denmark, Spain (6 paying agencies), Finland, France (2 paying agencies), UK (2 paying agencies), Greece, Ireland, Italy (5 paying agencies), Luxembourg, Netherlands, Poland, Portugal, Romania and Sweden.

The fieldwork was finalised on 15/10/2014. All observations and recommendations relate to the situation as of that date.

Major Audit Findings

This engagement constituted a very specific review of the legislation underpinning the new period 2014-2020 and it was only the first phase of a wider examination of the DG's preparations for 2014-20. The CPR and the CAP Horizontal Regulation bring together a number of key improvements aimed at harmonising and simplifying the arrangements governing the Structural Funds and the two pillars of the Agriculture area. The IAS acknowledges the efforts made by the Commission's services during the negotiation phase to protect the Commission's interests in its supervisory role, particularly in the face of very strong external political pressures. However, the final adopted legislation has resulted in significant additional risks, which will need to be addressed as part of the DG AGRI's preparations for the design and implementation of controls in the new period.

The main theme emerging as a result of this assessment, and which recurs across most of the findings is the sheer complexity and volume of the changes brought about by the legislative process. Across the board, but notably in key areas such as 'greening', a number of new measures were introduced, together with a large number of derogations, exceptions and supplementary rules which have offered greater flexibility to MS. With so many changes, the rules become complicated and therefore difficult to understand and apply in practice. The IAS notes the efforts made by DG AGRI, particularly towards and since the end of the IAS fieldwork, to address these concerns, for example the preparation of vade-mecums and detailed guidelines to be adopted by the Commission. Nevertheless, the scope for interpretation on the part of MS has been significantly increased, which in turn can have an equally significantly impact on the error rates.

Responsibility of Managing Authorities, Paying Agencies and Certifying Bodies and Accreditation Process

The number of PAs will remain the same (82) for the new period, which represents a missed opportunity to strengthen the underlying systems by streamlining the organisation and having a narrower span of control. This could in turn mean that the existing control problems will persist in the new programming period.

Suspensions of payments

The CAP Horizontal Regulation introduces a new legal framework for reducing/suspending payments and defines the conditions necessary for the identification of serious deficiencies in the control system which are not remedied by the MS concerned in accordance with an action plan. It also imposes a limit (2 years) on the time the Commission can suspend payments in the case of systemic errors. The effect of this time limit could be that payments are resumed even before remedial actions to address the reason for suspension are fully implemented. Also, although payments can be suspended if MS submit control statistics late, there is no penalty if the data is of poor quality and the Commission's powers were further reduced by limiting the amounts which can be suspended. As a consequence, MS have little incentive to submit accurate data. This is another missed opportunity to tackle the long-standing problems as regards the reliability of information submitted by MS.

Financial Corrections & Recovery of Irregular Payments

An opportunity was missed to align more closely financial correction processes between CAP and Cohesion area. Under the CAP, this is expected to take twice as long compared to the Cohesion area - due to the additional conciliation step envisaged in the Horizontal Regulation. Furthermore, the Delegated Act defines or categorizes in a very generic manner the key/ancillary controls which still needs to be complemented by more detailed guidelines. These controls are essential for assessing national systems, in order to decide on the seriousness of control weaknesses giving rise to corrections.

As is the case with Cohesion area, the Commission can increase the level of flat rate corrections in the case of persistent deficiencies under the CAP. However, the conditions for doing this are much less explicitly stated in the Delegated Act supplementing the Horizontal Regulation than they are for the Cohesion area legislation and will therefore need to be supported by concrete guidance in order to be effectively applied in practice. Although the Commission can suspend/reduce payments if MS are not diligent in recovering irregular payments, the financial consequence of non-recovery has to be shared between both the MS and the Commission (so called "fifty-fifty rule"), as was the case previously and contrary to the Commission's proposal. This was a missed opportunity to incentivise MS to improve their recovery systems and simplify its management.

Monitoring performance (performance framework)

The performance framework set out in the CPR is key to the results based focus of the ESI Funds in the 2014-2020 programming period and is complemented in the CAP area by the Horizontal Regulation, which sets out monitoring arrangements covering both

pillars. However, the legislative process has resulted in a number of exceptions and conditions to the rules being accepted which could effectively prevent the use of suspensions/financial corrections even where the priorities fail to achieve milestones or targets. This could in turn weaken the ultimate impact of the performance framework.

The long-standing problems as regards the reliability of MS data may also impact on the ability of DGs to effectively assess progress and performance and there is also an inherent risk that MS will set unambitious milestones and targets to avoid risking the performance reserve.

Eligibility Rules – First Pillar

Eligibility rules have become significantly more complex overall. The legislative process has opened up a wide range of options and different possibilities for MS which can only serve to increase the risk of misinterpretation and ultimately non-compliance. In addition, it will inevitably place significant additional pressure on the Commission's resources in assisting and supporting the MS, ensuring consistency and controlling different practices across them.

The introduction of Ecological Focus Areas (EFA) is one of the key new measures. However, the definition is now even wider than originally planned and MS have considerable flexibility in choosing what elements to include, some of which are likely to be more difficult or costly to control³. Also, a significant number of exemptions were introduced which again will complicate arrangements even further.

The co-legislators also introduced a transitional period to allow MS ensure that the Land Parcel Identification System (LPIS) can cope with EFAs. The LPIS is a key part of the control system and if not updated on time and/or the underlying data is not of good quality then it could have a significant impact on the error rate. During this transitional period, there is a higher risk of errors as it will not be possible to cross check between the EFA declared and the LPIS. Since the completion of the audit fieldwork DG AGRI has since told the IAS that it plans to mitigate this risk through increased on-the-spot checks and recording the EFA declared by the beneficiaries in the LPIS, after verification and before payment.

As regards the Common Organisation of Markets (CMO), new measures such as the promotion of wine mean a greater overlap between the two Pillars, which could in turn increase the risk of double funding. In addition, the CAP now allows the Commission to take measures in crisis situations. However, as to what constitutes such a crisis and/or the underlying criteria which need to be met before triggering such measures, this has yet to be defined. This could present a reputational risk in so far as it could lead, through for example political pressure, to measures which distort normal price movements and impact adversely on the financial possibilities to deal with genuine cases of emergency/crisis.

Basic Payment Scheme and other direct payment schemes

A number of new measures were introduced aimed at greening the CAP and ensuring a more equitable distribution of resources between and within MS. The most important of these was the Basic Payment Scheme (BPS), but a range of other measures was also

introduced, such as the young farmers scheme and also new voluntary measures such as redistributive payments, small farmers scheme and payments for areas with natural constraints and voluntary coupled support. These were all subject to significant changes during the negotiations aimed at essentially providing more flexibility to MS, but which at the time results in more complicated rules and greater scope for interpretation.

As regards the BPS, the Commission originally proposed a uniform payment per hectare by 2019, but a significant number of exceptions and derogations were introduced during the negotiations relating to, for example, the allocation of payment entitlements, internal convergence rules and the possibility to maintain payment entitlements under the Single Payment Scheme, etc. These derogations and options could ultimately lead to a wrong allocation of payment entitlements with multi-annual implications.

Greening

'Greening' is probably the single most important change to the CAP, representing some 30% of the national envelope for direct payments. It also constitutes one of the biggest overall risks, particularly given the scale of amendments, options and derogations introduced during the negotiations, which will make the rules very complicated and the measures difficult to control in practice.

Greening is implemented through three main measures: crop diversification, maintaining of existing grassland and introduction of an ecological focus area (EFA). However, under the 'equivalent practices' initiative, MS can replace these measures with measures which yield equal or greater environmental and climate benefits. These can be covered by agri-environmental climate measures under rural development programs or by national certification schemes, in which case MS can define the certification arrangements. In addition to being inherently very complex schemes and prone to error, the possibility to deliver these measures under rural development programs means there is also the risk of double funding.

Greening will also present a major challenge for the Integrated Administrative and Control System (IACS), particularly as regards to the verification of crop diversification, the EFA, permanent grassland and equivalent practices. The complexity of the measures involved will mean that the IACS will need to be significantly adapted to cope with the new rules and certain requirements can be checked only on-the-spot. In addition, the sanctions system for non-compliance with greening requirements is likely to have a lower deterrent effect than the normal sanctions system under IACS, particularly during the early years. The Commission proposed that penalties would apply from the first year of application (2015), but the co-legislators reduced the deterrent effect by deciding that these should apply only on a gradual basis.

Recommendations

Reflecting the fact that this is only Phase 1 of the gap assessment, only recommendations of a general nature have been formulated, which should be taken into account going forward in preparing for the 2014-20 Programming Period, but which do not require specific action plans as such. Where appropriate, these recommendations will be made more concrete, based on the detailed findings that will arise from the IAS Phase 2 work:

- DG AGRI should finalise any new requirements embedded in the CPR, the Horizontal Regulation for the CAP and the 3 other specific regulations as soon as possible through Delegated/Implementing Acts (if empowered in the legal acts) and clarify the rules through detailed guidance to the MS.
- DG AGRI should formalise the risk assessment of the new schemes to support, assess and adapt their control and audit strategies accordingly to properly address the risks arising from the new legislation and the choices made by each MS. This should also help DG AGRI management to monitor and supervise the required actions.
- In view of the new elements introduced by the CPR and the CAP four basic regulations, appropriate training should be given to staff so as to ensure consistent application of the rules, both between and within DGs.

4. COHESION

4.1. Gap Analysis Review of Regulation 2014-2020 for European Structural and Investment Funds (ESI funds) Phase 1 – Multi DG (DG AGRI, DG EMPL, DG MARE, DG REGIO)

Background

The management of the European Structural and Investment Funds (ESI Funds), which is shared between the Member States (MSs) and the Commission, involves commitment appropriations of EUR 325 146 million in 2014-20, representing some 45% of the total Commission expenditure for the period.

As part of the IAS Strategic Audit Plan 2013-2015 the IAS is carrying out a gap analysis review of the 2014-2020 Regulation for ESI Funds in 2014-2015. This is being conducted in two phases. Phase 1 consisted of a review of the Common Provisions Regulation (CPR), fund-specific regulation and any relevant Delegated and Implementing Acts (DAs and IAs), to the extent they are available at the time of the audit. Phase 2 is a more in depth examination of the design and preparations being made by the specific Directorates-General (DGs) concerned for dealing with the new programming period.

There are six layers of rules: common provisions, general provisions, fund-specific provisions, DAs, IAs and Commission guidelines. The CPR was established to improve coordination and harmonised implementation of the Funds providing support under Cohesion Policy (ERDF, ESF and CF), with the Funds for Rural Development (EAFRD) and for the Maritime and Fisheries Sector (EMFF), together the five ESI Funds. Part II sets out common rules for the ESI Funds. In addition, it contains in Part III general provisions which apply to the ERDF, ESF and CF (called "Funds"). Part IV contains general provisions applicable to the Funds and the EMFF. The general provisions (part III and IV) as laid down in the CPR do not apply to the EAFRD. For the AGRI area, the general rules on financing, management and monitoring have been set up in the Common Agricultural Policy (CAP) regulation, which apply to both EAFRD and EAGF.

The CPR empowers the Commission to adopt DAs of general application to supplement or amend certain non-essential elements of the legislative act and IAs, which lay down

uniform conditions for implementing legally binding Union acts. The first wave of DAs and IAs necessary for the programming phase has been adopted by the Commission and parts of the second wave necessary for programme implementation are close to adoption. In addition, some 70 draft guidance notes have been produced under the lead of DG REGIO and coordinated with the other DGs. Reflecting the specificities of the ESI Funds, specific rules applicable to each fund and to the European Territorial Cooperation under the ERDF were set out in separate regulations. The legislative package, comprising the CPR and the fund-specific regulation for Cohesion and AGRI, was adopted on 17/12/2013 and for the EMFF on 20/05/2014.

Objectives

The main objective of the Phase 1 review was to highlight, for the most important areas, the additional risks the Commission is facing as a result of the co-legislative process for the CPR, taking account of the need to have an appropriate balance between reducing the administrative burden, but at the same time maintaining the necessary level of control for exercising its supervisory responsibilities under shared management.

Scope

The review covered the CPR and associated secondary legislation where appropriate. It covered the ESI Funds and the DGs responsible (DG REGIO, DG EMPL and DG MARE). Recognising that only part of the CPR applies to EAFRD, as managed by DG AGRI and that there is a separate horizontal CAP regulation, together with the specific regulations for Direct Payments, Common Market Measures and Rural Development respectively, the findings relating specifically to DG AGRI were consolidated and communicated separately.

There were no observations/reservations in the respective AARs that relate to the area/processes reviewed.

The fieldwork was finalised on 9/07/2014. All observations and recommendations relate to the situation as of that date.

Major Audit Findings

This engagement constituted a very specific review of the legislation underpinning the new Programming Period and it was only the first phase of a wider examination of the DGs' preparations for 2014-20. The CPR brings together under one heading a number of key improvements aimed at harmonising and simplifying the arrangements governing the Structural Funds. The IAS welcomes this approach and acknowledges the efforts made by the Commission's services during the negotiation phase to protect the Commission's interests in its supervisory role, particularly in the face of very strong external political pressures. However, when compared to the Commission's original proposals, the final adopted legislation has resulted in significant additional challenges which will need to be addressed as part of the DGs' preparations for the design and implementation of controls in the new Programming Period.

Legislation architecture and the need to harmonise/simplify

The adopted CPR now constitutes one overarching set of rules for the European Structural and Investment Funds (ESI Funds). However, when taken together with all the associated secondary legislation, it constitutes a complex and voluminous overall package, which is not always readily understandable. In practice, harmonisation seems more geared to the beneficiaries rather than towards the national bodies charged with implementing the rules. The CPR was subject to a very heavy legislative process and the co-legislators introduced many changes. Although the legally binding secondary legislation can provide a safeguard in so far as it allows the Commission to impose more detailed mandatory requirements on Member States, it has been very extensive in nature. The associated definitions as to what should constitute derogations, supplementary rules or non-essential elements were not necessarily applied by the co-legislators in a coherent manner to the cohesion policy legislative package as a whole, which meant in some cases that different types of acts were adopted for essentially the same areas. Taken together, this could lead to problems of interpretation on the part of Member States, which in turn could ultimately increase the risk of errors.

Member State Management and Control Systems (roles of Managing Authorities, Certifying Authorities and Audit Authorities)

The Commission originally proposed that national bodies would be accredited by an accrediting body set up at the ministerial level, but following the legislative process this was changed to a designation process, in line with the provisions of the Financial Regulation which was adopted by the co-legislator shortly before. Furthermore, whereas in the previous programming period the Commission systematically reviewed at a second stage the compliance assessment of Member State systems, the Commission will now review the designation process on a risk basis only. This change was already included in the Commission's proposal and was adopted by the co-legislators.

The 2014-20 legislation prevents the Commission from interrupting payments simply for the reason that a management body is put under probation and/or its designation is ended. However, the IAS notes that it can use Art 83 of CPR to interrupt payments where there is evidence to suggest significant deficiencies in the management and control systems based on the results of national audit work.

The Commission originally proposed that the Audit Authority (AA) could not be part of the same public body as the Managing Authority (MA) for high value OPs, but following the legislation process this was allowed, provided that either the Commission took an Art 73 decision during the previous programming period (i.e. could formally rely on the AA) or where it is satisfied concerning the independence and reliability of the audit authority based on past experience.

The DGs' view is that designation risks are mitigated to the extent that in many cases the management and control systems will be similar to those under the previous period and that they have a detailed knowledge of these built up over many years.

As regards the Audit Authorities, the Commission originally proposed that sampling should be appropriately based, without specifying whether this should be statistical or nonstatistical. However, the final CPR allows the use of non-statistical sampling where appropriately justified, while still indicating that the general rule is that statistical sampling should be used. Also, despite challenging the Council's proposals to reduce the

audit coverage parameters, it was the Council's proposals which were finally adopted, with a clear requirement in case of non-statistical sampling that "the size of the sample shall be sufficient to enable the AA to draw up a valid audit opinion". However, in a separate statement related to Art 127 of the CPR, the Commission highlights the risk that reducing the size of the sample of operations could make it insufficiently representative, which would in turn weaken the audit assurance.

Concerning the single audit approach, the legislators went further than the Commission's proposals to reduce controls where it can rely on the AA or the national systems by specifically precluding Commission audits on-the-spot if the Commission has agreed so with the AA, unless there was evidence of deficiencies. Also, there were changes (reductions) to the Commission's original proposals as regards the retention of documents which in turn places additional pressures on both the Audit Authorities and the Commission's own auditors, as it reduces in practical terms the time window for audits, particularly where systemic errors are involved which require more work to estimate the population affected.

In addition, the impact on resources could also be very important in so far as audits on the 2014-2020 period will overlap with those on the closure of the previous period. Although the DGs expect to rely more and more on the work of the AAs under the new programming period, Commission audits will continue to play an important role as part of the overall control strategy but audit resources are scarce and require very careful planning and scheduling. Any knock-on impact on the Commission's audit coverage could leave it open to challenge in the case where there are financial corrections involved.

Suspensions of payments and Financial Corrections

The application of financial corrections was intensively discussed during the legislative process and subject to many modifications from the co-legislators before being finally adopted. These were aimed at seeking to restrict the circumstances and conditions under which net corrections would be systematically applied. The introduction of obligatory net financial corrections strengthens arrangements compared to the previous period and the Commission originally proposed that net corrections would apply from the date at which the Member States submit their accounts. However, the final CPR is less strict in so far as it allows MSs to continue to detect, report and correct irregularities and replace expenditure up to the date at which EU audits, either by the Commission or by ECA, detect a serious deficiency not previously detected nor corrected by the MS. The final outcome, compared with the original Commission proposal, could lead to a reduced incentive on MS to correct irregular expenditure at an early stage of the process and could thus in turn delay the correction process overall.

The new legislation also provides for the suspensions of payments and financial corrections linked to the performance of the OPs themselves, for example, where there are weaknesses regarding the reliability of performance information, ex-ante conditionalities and the achievement of milestones. In the previous programming period, the Commission was responsible for deciding on suspensions and for 2014-2020 its original proposal was to keep the whole suspension process in Commission hands. However, the final legislation allows the Commission to propose to the Council the

suspension of part or all of the payments under Art. 23 of the CPR which is linked to sound economic governance.

Performance Framework

The introduction of the performance framework is key to the results based focus of the ESI Funds in the 2014-2020 programming period and overall, constitutes a positive step the move towards ensuring more effective policy delivery in practice. However, the legislative process resulted in agreement of a number of exceptions and conditions to the rules, which could mean that non-performance may not actually be extensively penalised, which could in turn weaken the ultimate impact of the framework. Inherent reliability problems with MS data may have a knock-on impact on the ability of DGs to effectively assess the progress of OPs. There is also an inherent risk that Member States will set unambitious milestones and targets to avoid risking the performance reserve. From the DGs' perspective, this needs very careful monitoring and for staff to be appropriately trained and guided on what to look for. The risk could be compounded by the short timescale available for assessing OPs. However, the IAS notes that the units in charge of evaluation are also involved in the negotiation phase for the OPs and that this partially addresses the risk.

Eligibility Rules

Reflecting the complex and extensive overall legislative package, the eligibility rules for the ESI Funds are equally complex and multi-layered in nature. They include the CPR, the Fund-specific regulations, two DAs and national level rules. Consequently, this may pose a challenge for both Commission and Member State bodies in terms of verification and control. There are still significant differences between the individual funds and as far as the "investments in infrastructure" or "productive investments" are concerned. Unclear legislative provisions can increase the risk of irregularities/ineligible expenditure.

Recommendations

Reflecting the fact that this is only Phase 1 of the gap assessment, only recommendations of a general nature have been formulated, which should be taken into account going forward in preparing for the 2014-20 Programming Period, but which do not require specific action plans as such. Where appropriate, these recommendations will be made more concrete, based on the detailed findings that will arise from the IAS Phase 2 work:

- The DGs should finalise any new requirements embedded in the CPR and the fund specific regulation as soon as possible through Delegated/Implementing Acts (if empowered in the legal acts) and clarify the rules through detailed guidance to the MSs.
- The DGs should assess and adapt their control and audit strategies accordingly to properly address the risks arising from the new legislation.
- In view of the new elements introduced by the CPR, appropriate training should be given to staff so as to ensure consistent application of the rules, both between and within DGs. The IAS notes however that knowledge is shared between the DGs through the Sharepoint site on "interpretation", the common use of the

workflow IT tool WAVE and common trainings courses delivered by DG REGIO to the other DGs' staff.

4.2. Gap analysis of new legislation/design of 2014-20 Programming Period of European Structural and Investment Funds' (ESI funds) Phase 2 – Multi DG (DG EMPL, DG REGIO)

Background

As part of the IAS Strategic Audit Plan 2013-2015, the IAS planned to carry out a gap analysis of the new legislation and design of the 2014-20 programming period of European Structural and Investment Funds (ESI Funds) to be conducted in two phases in 2014.

Phase 1 reviewed the adopted legislation in order to assess the extent to which it reflects the Commission's original proposals/objectives to have an appropriate balance between reducing the administrative burden, but at the same time maintaining the necessary level of control to exercise its supervisory responsibilities under shared management. This engagement concerned DG REGIO, DG EMPL, DG AGRI and DG MARE.

Audit Objectives

Phase 2 is a more in depth examination of the design of the systems for the management of the 2014-20 programming period of the ESI funds by DG REGIO (ERDF/CF) and DG EMPL (ESF), and to the extent possible in this early phase of the programming period, the implementation of these in practice. The outcome of the work on Phase 1 was taken into account for Phase 2.

In conducting phase 2, the IAS clearly recognises that the development of the control architecture is very much an on-going process. Therefore, this is reflected in the audit results, in so far as these present a snapshot at a particular point in time. It should also be emphasized that the early nature of the audit was designed to be able to capture the approval process for Operational Programmes.

Audit Scope

The audit focused on the DGs' processes for:

- the negotiation, assessment and adoption of the Operational Programmes (OP),
- guiding and supervising the set-up of the Member States' (MS) Management and Control Systems (MCS).

Particular emphasis was given to new elements of MCS as compared to the 2007-2013 programming period as well as aspects related to the results orientation of the 2014-2020 programming period.

There were no observations/reservations in the AAR that relate to the area/process audited.

The fieldwork was finalised on 30/09/2014. All observations and recommendations relate to the situation as of that date.

Strengths

The auditors recognise the ongoing efforts made by DGs REGIO and EMPL to put in place a solid basis for the new 2014-2020 programming period's operational programmes and management and control systems. During the audit, the auditors identified the following strengths:

(a) Negotiation and adoption of OPs

Overall, the processes for the negotiation and adoption of OPs for the 2014-20 programming period were well prepared. The process started on time, mid-2012 with the preparation of the Position Papers¹⁷ and the informal dialogue phase. Detailed guidance was prepared jointly by the ESIF DGs for their staff and for the MS. The negotiation phase is well supervised by senior management in both DGs. There is pro-active cooperation between the ESIF DGs (e.g. bi-lateral monthly meetings of the Directors-General, Stock Taking Group, Ex ante Conditionality Suspension Committee). DG EMPL has in-house policy expertise on the main thematic objectives for which it is responsible and the role of the Geographical Units (GU) typically comprises both monitoring of policy and ESF programme management. DG REGIO has introduced Competence Centres (CC) to provide expertise on the thematic objectives to the GU.

(b) Supervising Member State management and control systems

The requirements for the MS' MCS largely build on the 2007-2013 programming period, but with important new elements, to further strengthen systems, such as a management declaration and annual accounts. DGs REGIO and EMPL have worked hard to develop a common approach to supervising the MS' management and control systems and the development of common guidance to the MS is well advanced. The joint effort includes as well the development of a single audit strategy for the ESIF DGs and a common audit plan, including also joint audits, based on a common risk assessment. Furthermore common Engagement Planning Memoranda (EPM) and checklists are being developed. Common IT systems support the audit (MAPAR) and data mining (ARACHNE) processes. The DGs have organised anti-fraud/anti-corruption seminars attended by all MS, complemented by seminars for the most risky MS and targeted training to managing and audit authorities on management and control systems are on-going.

Major Audit Findings

The IAS has identified the following four very important issues:

Supervising MS management and control systems (report finding N° 1)

¹⁷ The purpose of the position papers is to set out the framework for dialogue between the Commission and the MS on the preparation of the Partnership Agreement and the Operational Programmes. The paper sets out the key country specific challenges and presents the Commission's preliminary views on the main funding priorities.

It is still relatively early in the programming period and the outline single audit strategy will still be updated, but as it stands, certain elements are not clear and will need to be addressed as the strategy matures. Currently, there is little explanation as to how the DGs will obtain assurance on the reliability of the Audit Authorities (AA), including their new tasks, even though their work will continue to be the main source of assurance. The IAS acknowledges the move towards a more annual focus in the 2014-20 programming period, notably the review of the annual assurance package and that therefore the DGs' audit strategy focuses mainly on the assurance driven by this annual review (as from February 2016 on the year 2015). However, the strategy does not specify how the DGs will in addition build up assurance on a multi-annual basis and how to ensure that any errors can be detected during the beneficiaries' retention period for documents¹⁸. Few early preventive system audits are initially scheduled/budgeted, although these are the only way in which the Commission can legally implement corrective measures in the early phases of the programming period. However, the IAS notes that given the delays in the adoption of programmes no expenditure has been declared by MS for the moment.

OP negotiation and adoption process (report finding N° 2)

There are significant delays in the adoption of OPs in comparison to the initial forecasts. Whereas DG EMPL did not have a specific forecast in terms of number of OPs to be adopted, DG REGIO aimed to adopt all mainstream programmes before the end of October 2014. As of December 2nd, the forecast is that about half of the OPs for which REGIO and EMPL are chef de file, will be adopted by the end of the year. At that moment, only 30 OPs for which REGIO is chef de file and 24 OPs for EMPL had actually been adopted. These delays are largely due to the timing and lack of quality of documents submitted by the MS.

The quality issues concern most of the OPs submitted by the MS, but these were appropriately identified by the DGs and resulted in a high number of observations communicated to the MS. However, the OP assessment/adoption process was documented in varying ways. Most Desk Officers (DO) did not actually document their own analysis of the OP and some checks did not encompass all stages of the process. Also, the follow up of observations communicated to MS varied considerably in practice. The Ex-Ante Conditionalities (EAC) assessment is mostly documented at the MS level, while only in some cases the checklist was filled-out for each OP. This is in particular true for general EAC No.7 "Statistical systems and result indicators", which has to be assessed mainly at the OP level, but this was not always done or documented, even when observations were already sent to the MS.

Results orientation and performance framework (report finding N° 3)

Although the observations sent to MS include remarks on targets/milestones and, in some cases, such issues were discussed between the DO and the MS or the evaluation unit, there is limited concrete evidence of DOs actually trying to assess pro-actively their plausibility in order to address possible unambitious targets set by MS and any assessment made by them is generally not documented.

¹⁸ For projects with a value above 1 million EUR, the retention period ends 2 years after the year in which the accounts including the final expenditure of the completed operation are submitted. For smaller projects the retention period ends 3 years after the year in which the accounts including the expenditure were submitted.

IT systems supporting the management of the PP 2014-2020 processes (report finding N° 4)

During the first months of the operation of WAVE, a high number of incidents/defects and last-minute change requests occurred, which, at times, have delayed the operational processes for managing the adoption of Partnership Agreements (PA) and OPs. This led DG EMPL to temporarily suspend the use of WAVE, while DG REGIO continued to use it. There have also been considerable delays in the development and implementation of WAVE. These are due to a combination of reasons, including changes in priorities agreed by the Steering Committee, a lack of stability in the business processes, the priority attached to bug fixing, a lack of skilled IT developers, resource constraints in the IT unit and non-optimal working methods for development and defects resolution. As a result, the initial project planning was unreliable and, according to DG REGIO, the cumulative budget consumption in 2014 for the project was some 27% higher than forecasted. The IAS notes that, in view of the problems experienced in implementing WAVE, DG EMPL is currently examining the possibility of switching to an alternative system.

Recommendations

To address these issues, the IAS formulated recommendations which can be summarised as follows:

Supervising MS management and control systems:

The IAS recognises that the audit strategy is in the process of being updated and it is still relatively early in the programming period. However, the gaps identified as regards the audit strategy need to be addressed in good time, to ensure sound assurance building processes for the DGs from the start.

DGs REGIO and EMPL should therefore further develop/clarify their audit strategy with respect to how they will obtain assurance on the reliability of the Audit Authority (AA), including on the new tasks of the AA. The annual focus of the audit strategy should be complemented with a multi-annual assurance building approach and audits planned in such a way as to optimise the use of the retention period for documents. The DGs should plan more early preventive system audits to be able to legally implement corrective actions in the early phases of the programming period.

OP negotiation and adoption process:

The adoption of OPs may be further delayed and not all observations sufficiently addressed in a consistent manner before adoption of the OP. There may also be inconsistencies and a lack of transparency in the assessment of EACs. DGs REGIO and EMPL should therefore carefully monitor the final phases before OP adoption, including the follow-up given to the Commission's observations. The DGs should also clarify the minimum requirements for documenting the DO's work and ensure that DOs assess and document the EAC at the OP level where relevant.

Results orientation and performance framework:

DGs REGIO and EMPL should ensure that DOs actually question the plausibility of milestones/targets, including through their own research and estimation work, and document this assessment to allow consistency checks to be made and provide a basis for assessing the reasonableness of future OP modifications and the achievement of milestones and targets.

IT systems supporting the management of the PP 2014-2020 processes:

Additional delays in the delivery of stable WAVE functionalities could increasingly impact on the ESIF DGs' management of the 2014-20 programming period. DGs REGIO and EMPL should ensure that business processes are defined and agreed in time for the development, ensure a stable project team including the necessary development capacity, develop a reliable project planning and monitoring and improve IT development methods and defect resolution in order to ensure a stable platform.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendations.

4.3. Audit on preparations for use of Financial Instruments in DG EMPL 2014-20

Background

The legal framework for the 2014-20 programming period significantly expands the scope for using financial instruments in the Cohesion area in comparison to the 2007-13 period. Consequently, an audit on the preparations being made by DG EMPL for their use in 2014-20 was included in the 2013-2015 Strategic Audit Plan of the IAS.

Audit Objectives

The main objective of the audit was to assess the readiness of DG EMPL to monitor and supervise the financial instruments under the new legal framework and to highlight in advance any weaknesses in the DG's control system, which could jeopardise the achievement of objectives of the increased use of financial instruments in the new Multiannual Financial Framework (MFF).

Audit Scope

The audit was limited to the financial instruments set up under the European Structural and Investment Funds (ESIF). However, as the new legal basis foresees the possibility that ESIF Operational Programmes (OPs) may contribute to EU level financial instruments, the advantages and limitations of this option were also reviewed by IAS.

The fieldwork was finalised on 21/03/2014. All observations and recommendations relate to the situation as of that date.

There were no reservations in the 2013 AAR of DG EMPL that relate to the area/process audited.

Strengths

The IAS recognises the joint efforts made by ESIF DGs in strengthening the legal framework for managing financial instruments in the 2014-20 programming period, particularly as regards the introduction of compulsory ex-ante assessments before setting-up a financial instrument and a phased payments system¹⁹. Also, a strengthening of the provisions for management costs and fees together with improved reporting requirements.

Major Audit Findings

The IAS has identified the following very important issue:

Building financial instruments related capacity (report finding N°1)

The complexity of financial instruments requires extensive capacity building both at the level of the Commission and at that of Member States (MS). The capacity problem was recognised as a key factor for the low take-up/incorrect use of financial instruments in the previous programming period and for 2014-20 the financial instruments technical advisory platform (FI-TAP) is expected to play a key role in this regard. However, following the late adoption of the legislative framework, and the delays in the negotiation of a Financial and Administrative Framework Agreement (FAFA) between the Commission and the EIB, this has been significantly delayed and there are continuing doubts as to the likely take-up under ESF. In addition, there is a need to significantly improve the awareness raising effort.

Recommendation

To address this issue, the IAS formulated the following recommendation.

DG EMPL should:

- Given the delay to the launch of the FI-TAP, contribute to the preparation of technical fiches necessary for effective monitoring and control over the implementation of financial instruments, taking into account ESF specificities.
- Provide training for both geographical desk officers and auditors, either on an in-house basis and/or by informing about trainings offered by DG REGIO.
- Ensure that ESF needs are addressed by the final FI-TAP work programme, e.g. ESF-specific awareness raising activities to be included in the FI-TAP work programme in order to ensure timely and effective communication with various stakeholders.
- Depending on the take up in the 2014-20 period, further develop in-house knowledge and/or cooperation arrangements with DG REGIO staff to ensure appropriate audit and control coverage.

¹⁹ Article 41 of the CPR, which stipulates that subsequent payments can only be made once a predefined percentage of programme contribution previously paid to the financial instruments has been disbursed to the final recipients.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendation.

4.4. Audit on preparations for use of Financial Instruments in DG REGIO 2014-20

Background

The legal framework for the 2014-20 programming period significantly expands the scope for using financial instruments in the Cohesion area in comparison to the 2007-13 period. Consequently, an audit on the preparations being made by DG REGIO for their use in 2014-20 was included in IAS Strategic Audit Plan 2013-2015.

Audit Objectives

The main objective of the audit was to assess the readiness of DG REGIO to monitor and supervise financial instruments under the new legal framework and to highlight in advance any weaknesses in the DG's control systems which could jeopardise the achievement of objectives of the increased use of financial instruments in the new Multiannual Financial Framework (MFF).

Audit Scope

The audit was limited to the financial instruments set up under the European Structural and Investment Funds (ESIF). However, as the new legal basis foresees the possibility that ESIF Operational Programmes (OPs) may also contribute to EU level financial instruments, the advantages and limitations of this option were also reviewed by IAS.

The fieldwork was finalised on 21/03/2014. All observations and recommendations relate to the situation as of that date.

Two reservations were made in the 2013 AAR of DG REGIO concerning, inter alia, the financial instruments. One of them is a full reputational reservation related to non-eligibility of expenditure of the financial instrument (CZ OP 2007CZ161PO004) and the other one is a partial reservation due to deficiencies related to financial instrument (ES OP 2007ES16UPO001).

Strengths

The IAS notes that DG REGIO has a lead DG role as regards financial instruments under all ESIF and has developed a key competence in administering this complex and technically challenging form of assistance. Furthermore, the IAS recognises the efforts made by the DG in strengthening the legal framework for managing financial instruments in the 2014-20 programming period, particularly as regards the introduction of compulsory ex-ante assessments before setting-up a financial instrument and a phased

payments system²⁰. Also, a strengthening of the provisions for management costs and fees together with improved reporting requirements.

Major Audit Findings

The IAS has identified the following two very important issues:

Legal framework for financial instruments in 2014-20 (report finding N° 1):

The IAS identified the following issues arising from the new legal provisions, which are open to interpretation and which can pose risks to their practical implementation:

- Within the limitations foreseen by Article 37(4) of the CPR, support to enterprises may include, *inter alia*, financing of working capital, but as regards the general activities of an enterprise and/or realisation of new projects this could be misinterpreted by Member States (MS), which could in turn raise the question as to whether financial instruments will actually generate real investment as opposed to acting simply as a quick disbursement tool.
- The leverage definition as per the Financial Regulation (FR), to which the Common Provisions Regulation (CPR) refers, does not take into account the specificities of ESIF (i.e. the MS co-financing element which is generally applicable for any cohesion policy action). This means that the additional funding attributable to financial instruments would not be specifically assessed and reported. However, although the data submitted by MS in their Annual Implementation Reports (AIRs) could allow the net (i.e. excluding MS co-financing) leverage effect to be assessed, DG REGIO currently has no plans to make this assessment and report the results.
- Preferential treatment for private investors might be needed in order to attract private investors to invest in areas of market failure, which is important for the achievement of public policy objectives and this should in turn be properly justified at the ex-ante assessment stage. However, although the Commission has a supervisory role, it does not actually *approve* these assessments and therefore has limited opportunity at this stage to address the associated risks.
- Despite setting stronger rules overall and defining maximum thresholds for management costs and fees, the Delegated Act (C(2014) 1207) allows an exception, for example where competitive tender arrangements apply. In addition, there are clear differences between the arrangements for ESIF and EU-Level financial instruments, which could have a bearing on the market for financial intermediaries.

Building financial instruments related capacity (report finding N° 2):

The complexity of financial instruments requires extensive capacity building both at the level of the Commission and at that of MS. A key element to this is the financial instruments technical advisory platform (FI-TAP). However, following late adoption of the legislative framework and the delays in the negotiation of a Financial and Administrative Framework Agreement (FAFA) between the Commission and the EIB,

²⁰ Article 41 of CPR which stipulates that subsequent payments can only be made once a predefined percentage of programme contribution previously paid to the financial instrument has been disbursed to the final recipients.

this has been significantly delayed. Although certain capacity building measures have been undertaken, actions such as training and guidance still need to be further developed.

Recommendations

To address these issues, the IAS formulated recommendations which can be summarised as follows:

- Ensure that the risks related to issues identified in the legal framework are adequately mitigated and properly reflected in its guidance to DG REGIO staff and MS as well as its audit and control strategy, adapted for the 2014-2020 programming period. Specifically, it should develop guidance internally and to MS on the eligibility of working capital and preferential treatment of private investors and ensure that its staff clearly understand the key elements of the ex-ante assessment reports used to justify the set-up of financial instruments with ESIF funding. It should also issue guidance to help ensure that the leverage effect is properly measured and reported in the summary reports to the Parliament and the Council²¹.
- Closely monitor the work and the timeliness of preparatory works to speed up the launching of the FI-TAP. It should ensure that the FI-TAP work programme is sufficiently flexible to meet all stakeholders' needs. Pending its launch, it should develop a schedule for the drafting of technical fiches and further develop training opportunities for both geographical desk officers and auditors.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendations.

4.5. Limited Review of the calculation and the underlying methodology of DG REGIO's residual error rates for the 2013 Reporting Year

Background

The Mutual Expectation Paper on the AAR Peer Review Process foresees that the IAS may undertake limited reviews of the calculations and underlying methodologies of residual error rates of up to three DGs each year selected on a risk basis. These limited reviews take place, and are reported on to the DGs concerned, before the AARs are finalised. The IAS strategic audit plan for 2013-2015 includes for 2014 a limited review on the residual error rates reported by DG REGIO for the 2013 reporting year. A similar review was conducted in 2014 for DG CNECT.

²¹ DG REGIO partially accepted this Very Important recommendation, in particular on developing guidance for Member States on calculating the achieved leverage effect of financial instruments (i.e. capacity to attract additional public and private funding) to show the net effect of the leverage brought about by the use of financial instruments and to ensure that this is properly reported in the annual summary reports on financial instruments' implementation. DG REGIO considered that removing the national co-financing from the leverage concept would artificially lower the achieved leverage especially in cases when national co-financing is provided by private investors. According to the IAS, assessing the ability of financial instruments to attract new investment, and reporting on this, would be entirely in line with the Commission's move towards a more performance-based culture, particularly given the increased importance of this funding mechanism in the 2014-20 period.

Objectives

The objective was to review the calculation and underlying methodology of the Cumulative Residual Risk/Error Rate (CRR) reported by DG REGIO in its (draft) AAR 2013 and so contribute to help mitigate the discharge risk enabling DG REGIO to take appropriate actions, if any, before their disclosure in the final AAR and Synthesis report.

Scope

The review covered the following aspects:

- methodology for the calculation of the CRRs for the ERDF/CF operational programmes (OPs) based on the error rates reported by the Audit Authorities (AAs) and statements of withdrawals and recoveries reported by the Certifying Authorities (CAs) (including reliability of the data reported by the MS);
- testing of the calculated CRRs;
- presentation of the CRRs in the draft AAR (including compliance with the Standing Instructions for the AAR 2013).

The IAS reviewed the draft AAR transmitted to the central services (SG/BUDG) on 28/02/2014 and the preliminary CRR calculations up to that date. As REGIO's CRR calculation tables were updated on an on-going basis until the AAR was finalised, all data reported in the draft AAR and reviewed by the IAS were provisional at the time.

In its 2012 AAR and in the draft AAR 2013, DG REGIO included a reservation for the 2007-2013 programming period on significant issues regarding the effective functioning of management and control systems for ERDF/Cohesion Fund/IPA on a number of programmes in several member states. The reservations were based on a range of factors, including the individual CRR figures for the OPs concerned.

The audit fieldwork was finalised on 7/03/2014. All observations and recommendations relate to the situation as of that date, but certain figures included in the report have been updated to reflect the final AAR.

Strengths

The IAS recognises the on-going efforts made by DG REGIO to strengthen the assurances obtained from the AAs' work and to demonstrate through the CRR the multi-annual corrective capacity of the management and control systems put in place by Member States (MSs) and the Commission. The IAS found no significant errors in the CRR calculation process and adequate supporting evidence was provided for all data and changes to data used for the calculation process.

The IAS notes in particular that the process for reviewing the Annual Control Reports (ACRs) and assessing the reliability of AA error rates is mature, well documented and supported by internal guidance and guidance to MS. This process, which has to take place within a very narrow timeframe, is planned well in advance and monitored very closely. In general, the IAS found that procedures were applied as intended. It also notes

more generally the importance of DG REGIO's overall audit and control strategy in the decision making process for reservations. The assessment of MS management and control systems is a complex mix of assurance building blocks and is the key driver in the process.

Major Audit Findings

The review made findings related to the way in which DG REGIO presents key information in its AAR on reservations and the amounts at risk (Very Important), the reliability of validated error rates (Very Important), the reliability of MS figures for withdrawals and recoveries (Very Important) and the calculation of the CRR (Very Important). However, given that DG REGIO implemented most of the recommendations concerning the reservations and amounts at risk before finalising its AAR 2013, this recommendation is downgraded from Very Important to Important only. The IAS also made a finding relating to the underlying business process (Important).

Recommendations

To address these issues, the IAS formulated recommendations which can be summarised as follows:

Reliability of validated error rates:

For 2014 onwards, DG REGIO should:

- take the necessary measures with AAs to ensure that the additional instructions provided in its note of December 2013 are applied in practice;
- clarify the requirement for AAs to report detailed error rate calculation tables, including a minimum level of information on the results of all audits of operations, currently included in the draft implementing acts for the 2014 period, for example by presenting the data in a standard template.

Reliability of withdrawals and recoveries:

Going forward, the DG needs to carry out more systematic checks on the MS figures and ensure that its audit work delivers the necessary coverage. In particular, REGIO should address the risk of double-counting corrections both taken into account in the estimation of the amount at risk and in the reported withdrawals and recoveries.

Also going forward, REGIO should assess how long it takes to effect pending recoveries and the amounts which are actually cashed in practice, before taking them into account for the calculation. In addition, the DG should assess whether formal agreements are actually deducted from the next payment claim in practice in order to confirm whether it is prudent to take them into account or whether to consider them simply as relevant information for the reservation making process. Finally, REGIO should exercise caution in taking account of MS reports on withdrawals and recoveries submitted in advance of the 31 March deadline, unless it has obtained reasonable assurance on the reliability of the data.

The DG should ensure that the implementing acts for the 2014-20 programming period address the need to improve the way in which MSs report withdrawals and recoveries, including their origin, in order to specifically address the risk of double-counting.

Calculation basis of the Cumulative Residual Risk/Error Rate (CRR)

For the 2013 AAR, DG REGIO should analyse for each OP whether it is valid to use the error rate relating to last year's expenditure as a best estimate for this year when calculating the CRR and amount at risk. It should apply alternative approaches (e.g. flat rate estimates) if this is not the case. For the 2014 AAR onwards, negative figures for individual OPs should not be carried forward into subsequent year's calculations.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendations. A recent follow-up showed that all remaining actions of the very important recommendations have been implemented for the 2014 AAR.

5. RESEARCH, ENERGY AND TRANSPORT

5.1. Gap Analysis Review of the legislation regarding Horizon 2020 – Multi DG (DG CNECT, DG ENER, DG MOVE, DG RTD)

Background

Horizon 2020 is the Union's new funding programme that brings together all existing Union research and innovation funding, including the Framework Programme for Research, the innovation related activities of the Competitiveness and Innovation Framework Programme and the European Institute of Innovation and Technology (EIT). The Horizon 2020 commitment appropriations of EUR 74 316.9 million for 2014-20 are directly managed by Commission Directorate-Generals (DGs), Executive Agencies and other implementing bodies.

As part of the Strategic Audit Plan 2013-2015 IAS has carried out a gap analysis review of the legal framework establishing and governing Horizon 2020. This constitutes part of a wider review of the design and preparations being made by the DGs and services responsible for its implementation.

The "Innovation and Investment" legislative package establishes five public-private, four public-public research partnerships and an initiative to pool research and innovation investments in Air Traffic Management in support of the Single European Sky.

These two overall packages are referred to as "Horizon 2020 legislation" in the report.

Objectives

The main objective of this review was to analyse the Horizon 2020 legislation as decided by the co-legislators, compare it to the initial Commission proposal and highlight, for the most important areas, the additional risks the Commission is facing as a result of the co-legislative process. This review takes into account of the stated goal of the Commission to adopt a simplified programme architecture and a single set of rules for participation, to

achieve an appropriate balance between trust and controls and to reduce the administrative burden on both beneficiaries and the Commission.

Scope

The review covered the Horizon 2020 legislation and the DGs responsible (DG RTD, CNECT, EAC, ENTR, ENER, JRC and MOVE) for the implementation of Horizon 2020. However, recognising its lead role in the Research Area, DG RTD is the prime focus of this report. Annex 2 of the report provides the exhaustive list of legislative acts covered by the review.

There were no observations/reservations in the DGs' past AARs that relate to the area/process reviewed.

The fieldwork was finalised on 22/10/2014. All observations and recommendations relate to the situation as of that date.

Major Audit Findings

This engagement constituted a very specific review of the legislation underpinning H2020 and makes up only the first phase of a wider examination of the preparations for its implementation. The IAS welcomes the efforts made through this legislation to bring together a number of improvements aimed at harmonizing and simplifying the arrangements governing the research framework programme. It also recognises the efforts made by the Commission's services during the negotiation phase to protect the Commission's interest, particularly in the face of very strong external political pressure. When compared to the Commission's original proposal, the final legislation has resulted in a compromise text, which is not too far from what the Commission originally set out to achieve.

Nonetheless, the changes have resulted in a number of additional risks that will need to be addressed as part of the preparations for the design and implementation of controls going forward. The IAS findings were as follows:

Rules for Participation

A single set of rules governs Horizon 2020 participation and the dissemination of results. These include a simplified cost reimbursement model aimed at reducing complexities, the degree of paperwork involved and the potential for financial errors. It also includes a reduction in the time allowed to award a grant.

However, the proposed regulation for the Rules for Participation was subject to a heavy legislative process and the co-legislators proposed a number of changes. Whilst the overall intention of the legislation was to strengthen the simplification effort, the end result is that there will in fact be additional pressure on the Commission services and that H2020 will be characterised by some of the complexities for which FP7 was often criticised. For example, a further reduction in the time-to-grant means the Commission services will need to be well prepared organisationally and procedurally. Also, key changes to the simplified cost reimbursement model, notably as regards large infrastructure beneficiaries being able to claim parts of actual indirect costs instead of

flat rates, are likely to increase the scale of ex-ante checks needed by the Commission. In addition, the new possibility for non-profit organisations under innovation actions to claim 100% funding of direct costs could distort competition if these bodies also carry out economic activities and the increase in the single flat rate for the reimbursement of indirect costs from 20 to 25% could in fact simply raise H2020 costs overall without actually increasing the number of projects financed.

Programme architecture

The Commission originally proposed to establish three major priorities or pillars under Horizon 2020, namely generating excellent science, fostering industrial leadership and tackling societal challenges. The legislative process introduced two more specific objectives, which reflect the political priorities of the co-legislators. A number of changes were made to the Small and Medium Enterprise (SME) instrument that aim to make this scheme more appealing to its target audience and to increase participation rates. However, this could impact on the overall error rate in so far as SMEs traditionally have a higher risk profile. Also, by specifically earmarking funds in this way could limit the Commission in being able to select other good quality proposals, regardless the status of the beneficiary.

Control framework

The Commission's proposal to reduce the audit burden on beneficiaries, through a revised control strategy, with a balance between trust and control, was not significantly modified during the negotiation process, except with regard to a limiting of the time available to carry out ex-post audits. This was reduced from four years to two years, after the payment of the balance for a project. This reduction in the time window for audits could impact on the potential reach and effectiveness of ex-post controls as it reduces the possibility to extrapolate and "clean" the non-audit population. In addition, the scope for additional risk-based control work is necessarily limited if irregularities are detected only after this window has expired.

Monitoring and Evaluation

Although the Commission's original proposal envisaged the quantification of key indicators for assessing results and impacts for H2020 general and specific objectives, the adopted legislation maintained the indicators, but did not quantify the associated targets. Furthermore, the adopted legislation did not define the indicators to cover the two additional special objectives. By not embedding the target value of indicators in the primary legislation represents a missed opportunity on the part of the co-legislators to reinforce the move towards a more performance-based culture.

Innovation and Investment Package

The number of public-private partnerships has been extended under H2020 through the increased use of Joint Undertakings (JUs), with a view to strengthening links to the industry. Whereas the Commission originally proposed that the discharge for the budgetary implementation of the EU contribution to the JUs should be given indirectly through the Commission as part of the simplification effort, the co-legislators decided that the JUs should have separate discharge arrangements. Thus, the extent to which

simplification is achieved in practice might be limited. Furthermore, this could also impact on the Commission's effective oversight of budgetary implementation, given that it remains the authorising officer for payments made through the JUs. H2020 also includes public-public partnerships with Member States in order to help implement national research programmes. As regards these bodies, the co-legislators set minimum and maximum levels for the EU contribution in relation to the MS share. In practice, this could have the effect of limiting the leverage effect of the EU element.

Recommendations

Reflecting the fact that this is only the first part of a wider review of the design of controls and preparations for implementing H2020, only one recommendation of a general nature has been formulated, which should be taken into account going forward in preparing for the period 2014-20. Where appropriate, any further recommendations will be more concrete, based on the detailed findings that would arise from further IAS work.

At this stage the IAS recommends only that DG RTD and other DGs and Agencies responsible for implementing Horizon 2020 take proper account of the changes to the original Commission proposal mentioned above in their preparations going forward and are expected to adapt their internal organisation/processes in order to address the risks identified. This should include preparing any guidance/instructions needed to clarify the rules. This recommendation does not require that a specific action plan be produced.

5.2. Audit on the implementation of FP7 control systems (including Supervision of External Bodies) in DG CNECT

Background

DG CONNECT implements EU research policy and supports the development of the European Research Area mainly through the Research Framework Programmes. The Seventh Framework Programme (2007-2013) is being phased out, but still a large portion of the payments appropriations will be spent against cost claims until 2016-2017.

A wide-ranging audit on the implementation of FP7 control systems in DG CONNECT was included in the IAS Strategic audit plan, but was postponed until 2014 due to other audit priorities. In the meantime, this area has been largely covered by both DG CONNECT IAC and the ECA. Therefore, the audit scope was defined based on an analysis of the previous audits. The audit focused on the aspects that have not been sufficiently covered and are still very relevant in these last years of implementation of FP7 (i.e. implementation of ex-post control results, anti-fraud measures and supervision of external bodies).

The ex-post control activity for FP7 was transferred from the research DGs to the Common Support Centre (CSC) as from 1.01.2014. Although the creation of the CSC, hosted by DG RTD, is a response to the criticised fragmented approach in the Research family, the transfer of activities may pose specific difficulties and risks in terms of delays, business continuity and performance.

DG CONNECT supervises two Joint Undertakings (ENIAC and ARTEMIS which will be merged into a single one, i.e. ECSEL), one body established under art. 185 TFEU²² [Ambient Assisted Learning (AAL)] and two EU Agencies (ENISA and BEREC).

There was one reservation in the 2013 DG CONNECT AAR concerning the rate of the residual errors with regard to the accuracy of cost claims in FP7.

Audit Objectives

The objective of the audit was to assess the adequacy and effective application of the internal control systems for the following processes:

- Implementation of the ex-post control results, i.e. leading to financial corrections and sanctions;
- The current anti-fraud measures including identifying potential good practices and benchmarking within the Research family, given that prevention and detection of fraud is a growing concern for the Commission;
- Transfer of the ex-post control activity to the CSC;
- Supervision of the external bodies, i.e. ENIAC, ARTEMIS, AAL, ENISA and BEREC.

Audit Scope

The audit addressed the following main key questions:

- Whether financial corrections and sanctions are effectively and efficiently applied, and whether they comply with the current rules;
- Whether DG CONNECT's Anti-fraud Strategy is effectively applied and whether potential good practices are shared with other Research family Services (in particular DG RTD);
- Whether DG CONNECT has taken adequate measures to ensure a smooth transition of its ex-post control activity to the CSC and improved performance across the Research family (e.g. efficiency gains);
- Whether DG CONNECT supervision on the external bodies has ensured compliance with the applicable rules, sound financial management and adequate monitoring and control of the achievement of the bodies' corresponding policy objectives. In this respect, the IAS took into account the relevant work carried out by the ECA, DG CONNECT's IAC and IAS Directorate A.

Strengths

The IAS acknowledges the fact that DG CONNECT was the first to develop a comprehensive anti-fraud strategy in 2011, which was also used as a reference point and

²² Public-Public Partnership.

helped to trigger the development of anti-fraud strategies in some of the other Commission Research Services. In particular, noted the actions undertaken in the areas of training courses, awareness raising campaigns and the preparation of ex-post controls with intelligent data gathering (i.e. on the legal form, staff and financial situation of the selected entities, using a data-mining tool).

Major Audit Findings

The IAS has identified the following very important issue:

Anti-fraud strategy (deterrent measures, detection of plagiarism and double funding) (report finding N° 1)

The existing measures put in place by DG CONNECT to deter and detect fraud are only partially effective due to the following weaknesses:

- Jointly with DG RTD, DG CONNECT developed internal guidelines laying down that the imposition of a financial penalty "is to be seen as ultima ratio [...] and should be envisaged only in those cases where serious breach of contractual obligations did not trigger the application of liquidated damages". The IAS considers that these guidelines are not sufficiently developed to ensure their effective practical implementation, and notes that the REA has recently decided to apply penalties in the established cases of fraud. In practice, DG CONNECT has not yet applied any financial penalties since the beginning of FP7. Over the same period, it has applied only one administrative penalty (exclusion from EU funding).
- The tools and approach for effectively detecting double funding and plagiarism need to be improved.

Recommendations

To address this issue, the IAS formulated the following recommendation:

- While recognizing that DG RTD is the lead DG in the area of fraud detection following the transfer of the ex-post control activities to the CSC, DG CONNECT should take the initiative and collaborate with DG RTD to further develop the existing guidance concerning the implementation of financial and administrative penalties. DG CONNECT should ensure their systematic application (as foreseen by the current FR, the CAFS and the contractual framework for FP7 and Horizon2020), at least in the established cases of fraud.
- DG CONNECT should collaborate with DG RTD to ensure the availability of an effective and integrated IT tool aimed at detecting double funding and plagiarism that can be used across all Commission Research Services, striking the right balance between coverage of the riskiest projects and cost of controls. DG CONNECT should develop the relevant internal procedures to integrate anti-plagiarism detection into current practices.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendation.

5.3. Audit on the implementation of FP7 control systems (including Supervision of External Bodies) in DG RTD

Background

A wide-ranging audit on the implementation of FP7 control systems had been included in the IAS Strategic audit plan, but was postponed until this year due to other audit priorities. In the meantime, this area has been largely covered by both DG RTD IAC and the ECA. The audit therefore focussed on the aspects that have not yet been sufficiently covered and are still very relevant in these last years of implementation of FP7.

Even though the Seventh Framework Programme (2007-2013) is being phased out, DG RTD will still be spending a large portion of the payments appropriations (€8 609.38 m) still remains to be used against cost claims during the next years.

Audit Objectives

The objective of the audit was to assess the adequacy and effective application of the internal control systems for the following processes:

- Monitoring and supervision by DG RTD of:
 - a. two Executive Agencies (REA and ERCEA);
 - b. four European Joint Undertakings (JUs), of which three Joint Technology Initiatives (JTIs) (Innovative Medicines Initiative, Clean Sky and Fuel Cells and Hydrogen) and the JU for ITER (Fusion for Energy-F4E);
 - c. three bodies established under article 185 TFEU [BONUS (Baltic Sea), EMRP (European Metrology Research Programme) and EUROSTARS].
- **Prevention and detection of fraud**, as it is a growing concern for the Commission. Following the Commission's Communication on Anti-fraud Strategy and the Research family Anti-fraud Strategy (RAFS), DG RTD updated its anti-fraud Strategy in July 2012. In 2011 the IAS performed an audit on the control strategy for on-the-spot control and fraud prevention and detection in DG RTD. However, the implementation of DG RTD's updated anti-fraud Strategy has not been audited yet.
- The **transition to the Common Audit Service** in the Common Support Centre (CSC), which as from 1 January 2014 is responsible for implementing the ex-post audit strategy for the FP7 legacy managed in-house.

Audit Scope

The audit addressed the following main key questions:

- whether DG RTD's supervision of the external bodies has ensured compliance with the applicable rules, sound financial management and adequate monitoring and control of the achievement of the bodies' corresponding policy objectives;

- whether DG RTD's Antifraud Strategy is effectively applied in practice and whether potential good practices are shared with other Research family Services;
- whether DG RTD has taken adequate measures to ensure a smooth transition to the CSC to implement effectively and efficiently the ex-post audit strategy related to the FP7 legacy managed in-house.

In its 2013 Annual Activity Report, DG RTD made a reservation concerning the residual error rate with regard to the accuracy of cost claims in the FP7, the representative error rate from the Common Representative audit Sample being 4.14%. The residual error rate calculated was between 2.88% and 2.99%.

Strengths

The IAS acknowledges that DG RTD has put in place a number of mechanisms ensuring overall effectiveness in the operations of its internal control system as follows:

- Arrangements for operational cooperation between DG RTD, the Agencies and JTI have been established (e.g. Memorandum of Understanding (MoU), Compendia of procedures for EA and JTI JUs).
- The annual 'Stocktaking reports' prepared during the past four years are a good practice as an internal management and monitoring tool which analyses the governance, interrelations, procedures, documents, supervision etc. concerning the External Bodies.
- DG RTD has strengthened considerably its ex-post audit function during the last years and made significant efforts to improve its processes and procedures.

Major Audit Findings

While acknowledging the steps already taken, the IAS concludes that the internal control systems in DG RTD for the processes audited need to be reinforced, in particular to better address the challenges of supervising JUs and article 185 TFEU bodies, and more effectively prevent and detect potential fraud. The IAS' assessment takes into account the large amount of FP7 payments appropriations still to be used against cost claims during the next years, as well as the need to start implementing Horizon 2020 in the 2014-2020 MFF in the best conditions, since the budget entrusted to JUs and article 185 TFEU bodies will be increased and the fight against fraud will remain a priority for the Commission.

The IAS has identified the following three very important issues:

Supervision of the Joint Undertakings set up to implement Joint Technology initiatives (report finding N° 1)

- Without prejudice to the supervision and monitoring activities, DG RTD's responsible staff were not fully aware of the Commission's overall accountability with respect to the Joint Undertakings.

- The calculation and presentation of the error rate in both the final AARs 2012 and provisional AARs 2013 (issued mid-February 2014) submitted by the three JTI JUs are not consistent, resulting in a non-appropriate disclosure of the error rates in DG RTD's AAR. The legal basis for the JTI JUs sets out that their AARs should be delivered by the end of June. The delivery of the AAR by the JTIs JUs and the preparation of the Directorate's contribution to the AAR of DG RTD are not synchronised, which does not ensure that DG RTD has the most up-to-date information to support the assurance in its own AAR.

The transition to the Common Audit Service (report finding N° 2)

- The CAS Audit Plan was based on the assumption that 15 posts would be transferred from the research DGs, but these were not yet available as of May 2014. Additionally, given the audit backlog of some services at 31/12/2013, the CAS will have to make up for this over the years to come.
- As of May 2014, the CAS has identified the procedures at the operational level that are to be harmonised given that different services are involved. These were discussed by the Executive Committee and there is a request to harmonise these procedures by October 2014.

Anti-fraud measures (report finding N° 3)

- The Common anti-fraud strategy in the research family (RAFS) does not include any concrete objective with related KPIs, all services should achieve in a coordinated way through a concrete action plan with related deadlines.
- Although DG RTD had planned to implement its revised Anti-fraud Strategy of 2012 by December 2013, its services assessed four out of the 18 actions as not fully implemented at the end of March 2014, with five more requiring subsequent actions. Whilst DG RTD made efforts to implement the strategy, areas for improvement mainly concern prevention and detection of scientific and professional misconduct, including double funding and plagiarism, the application of financial and administrative penalties, and the use of proper anti-fraud KPIs and related monitoring tools. DG RTD's quantification of the amount at risk for the identified fraud cases, i.e. between 0.15% and 0.25% of the annual payments, is far below the international benchmarks on estimated losses due to fraudulent activities.

Recommendations

To address these issues, the IAS formulated recommendations which can be summarised as follows:

- Taking into account the Commission's responsibilities for the implementation of the budget entrusted to the JTI JUs, ensure staff's full awareness about the Commission's accountability in this area, obtaining from the JTI JUs the most complete and up-to-date information for the purpose of its own AAR, and ensuring that it has consistent information from across the different JTI JUs on the calculation of the residual error rate and materiality criteria.
- Seek internal agreement related to the creation of the Common Support Centre clarifying roles, responsibilities, tasks and procedures.

Given the challenges faced by the CSC, especially in obtaining from other DGs in the research family, agreement on the transfer of adequate staff or posts, the IAS will bring the issue of the resource gaps to the attention of the central services by issuing a management letter on the subject.

- In coordination with the other Research family Services, update the Research family common anti-fraud strategy, including concrete actions to improve fraud prevention and detection activities, and in particular address the risks of scientific and professional misconduct, double funding and plagiarism; further develop and implement clear guidelines on the application of financial and non-financial sanctions in both FP7 and Horizon 2020; develop a set of KPIs to be able to measure the performance of the anti-fraud activity, and a proper monitoring and reporting tool for the potential fraud cases.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendations.

5.4. Audit on the implementation of FP7 control systems in ERCEA

Background

The European Research Council (ERC) was set up in 2007 to implement the IDEAS programme under the Seventh Framework Programme (FP7) for the benefit of the scientific community in Europe by financing frontier research projects. The ERC aims to provide researchers with the means to conduct their research independently, by selecting and funding investigator-driven research ideas based on initiatives from the scientific community. Another goal of the ERC is to offer career prospects to the best European researchers and also to attract top scientists to Europe.

The ERC Executive Agency (ERCEA) is the dedicated structure responsible for the implementation and execution of the programme. It supports the activities of the Scientific Council, the main decision making body of the ERC. The Agency is managed by a Director and a Steering Committee. The Commission is the guarantor of the ERC's full independence. The parent DG of ERCEA is DG RTD, which nominates three members of the Steering Committee – the other two are nominated by the Scientific Council.

As of 1 January 2014, the ERC is part of the first pillar – "Excellent Science" – of the new Horizon 2020 framework programme with a total budget of EUR 12.8 billion for the period 2014 - 2020. The implementation of the ex-post strategy of the new programme will be under the responsibility of the newly created Common Audit Service for the research family as a whole. However, ERCEA is still responsible for the ex-post controls of its transactions under FP7. Although the FP7 covering the period 2007-2013 is being phased out, a large portion (around 50%) of the budgeted amount still remains to be used over the next few years, with the volume and value of payments under the IDEAS programme expected to peak between 2014 and 2016, and the last final payments to be made in 2021. The RAL as at 31 December 2013 was EUR 3 919.64 million.

The major inherent risks in implementing the IDEAS programme relate to the selection and control of research projects (the evaluation of the progress and results of the

projects) due to their lifetime (five years on average) and complexity. The beneficiaries are usually large, public sector entities (universities and national research centres) with a previous history of participation in other FP7 programmes and well-established control systems. Together with the simplification measures inherent to the IDEAS programme, ERCEA considers that this results in a comparatively lower level of risk for its activities.

Audit Objectives

The main objective of the audit was to assess whether ERCEA's FP7 control strategy was efficiently and effectively implemented and reported in its Annual Activity Report. In addition, the IAS examined whether ERCEA ensures that corrective measures are taken promptly and proportionately in order to obtain an acceptable level of error as regards the legality and regularity of transactions.

Audit Scope

This audit focused on the implementation of procedures (planning, execution and follow-up) in the area of ex-post controls, the implementation of financial corrections resulting from ex-post audits and the building up of assurance for the implementation of the operational budget.

The audit scope did not include the following areas: calls for proposals and related evaluation, grants payment activities, and ERCEA's anti-fraud strategy.

There were no observations/reservations in the AAR that relate to the area/process audited.

The fieldwork was finalised on 4 November 2014. All observations and recommendations relate to the situation as of that date.

Strengths

The IAS recognises ERCEA's efforts to put in place a sound internal control system in implementing the IDEAS programme delegated by the European Commission and supervised by its parent DG.

In particular, the IAS acknowledges the following strengths:

- The External Evaluation of ERCEA covering the first three years of the Agency's activities²³ is globally positive, concluding that ERCEA *"has been efficient and effective in performing its tasks"* (for example in respect of good cooperation between ERCEA and Commission services, simplifying its own procedures, good indicators for "Time to Grant" and "Time to Pay", and its significant reputation within the scientific community);
- ERCEA participated in various Research family working groups, in the Research family awareness campaign on most common FP7 errors, and organised grant management events with beneficiaries.

²³ The report covers the period: 16 July 2009 – 15 July 2012. The final report is dated June 2013.

Major Audit Findings

The IAS has identified the following two very important issues:

Building up of assurance (report finding N°. 1)

According to ERCEA, the CRaS for FP7 as a whole cannot be used to disclose a representative error rate for its IDEAS programme. However, the ex-post audits of its own MUS250 sample of transactions is not yet complete (63% completion rate). As a result, ERCEA is not yet in a position to calculate and disclose a representative error rate for its activities. The disclosure of the errors detected through the risk-based audits as "representative" in ERCEA's 2013 AAR may not provide an accurate picture to the reader.

Ex-post control planning and execution (report finding N°. 2)

The audit revealed weaknesses in the planning and execution of the audit plans, notably the absence of a comprehensive plan, including KPIs, the output of the audit risk assessments not fully reflected in the final list of audits, and considerable delays in conducting audits.

Audit recommendations

To address these issues, the IAS formulated recommendations as follows:

- disclose a residual error rate based on a statistically representative sample or, if it uses an alternative assessment pattern, to refer to it as a "detected" rather than "representative" error rate.
- develop a comprehensive audit strategy and audit plan, including relevant KPIs, and regularly review its risk parameters to reflect the specificities of ERCEA.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendations.

5.5. Audit on procurement management in DG JRC

Background

The Joint Research Centre (JRC) is the European Commission's in-house science service and the only Commission service in charge of direct research. It is composed of ten directorates including seven scientific institutes located in six sites in five countries. In 2013, it employed 3 023 staff including 2 051 scientific staff and 972 administrative staff, of which 63 staff are directly involved in the procurement activity. In financial terms, the DG managed in 2013 commitment appropriations of €515 m, of which €128 m represented operational expenditure and €387 m administrative expenditure.

Procurement is vital to the core business of the JRC to provide EU policies with independent, evidence-based scientific and technical support throughout the whole

policy cycle. Over 75% of its annual budget (excluding staff related expenditure) is implemented through a large number of procurement procedures and the signature of numerous contracts. In 2013, the JRC signed 170 large value contracts (i.e. above €60 000) for a total of €140 m and 7 000 orders or contracts with a value below €60 000 representing an estimated total of €29 m. The use of a large number of procurement procedures for the supply of goods and services in six sites across five different countries exposes the JRC to a high risk not only in terms of legality and regularity but also in terms of sound financial management.

This area was last audited by the IAS in 2009.

Audit Objectives

The objective of the audit was to assess whether the procurement process at the JRC is compliant with the procurement rules and whether the controls in place are effective.

Audit Scope

The scope of the audit was on the procedural aspects of the procurement process as follows:

- Needs analysis and planning,
- Contract preparation (compliance with public procurement rules, selection criteria, contractual arrangements on monitoring performance and payment arrangements),
- Contract execution (efficiency and effectiveness of control system focusing on the certified correct procedure, compliance with payment delays),
- Ex-post control strategy.

The fieldwork was finalised on 22 October 2014. All observations and recommendations relate to the situation as of that date.

There were no observations/reservations in the AAR that relate to the area/process audited.

Strengths

Since 2012, the JRC has taken steps which have led to improvements in the procurement process and ensure compliance with the procurement rules. In particular, it centralised specific competences in Unit JRC.B5 (Finance and Procurement) with a clear purpose and remit for ensuring effective support and assistance to the decentralised Procurement Units with a view to harmonising financial and procurement procedures and processes across the JRC.

In addition, the IAS welcomes the role played by the Public Procurement Advisory Group (PPAG) over major procurement procedures. The PPAG is the JRC's ex-ante control body for public procurement contracts. Although its opinions are not binding, the sub-delegated authorising officers must take them into account when awarding a

contract. Another key control function identified by the IAS is the JRC's extensive ex-post controls performed on a yearly basis on payment and procurement files.

The JRC has also developed and is using a pre-awarding back office system called Public Procurement Management Tool (PPMT), which has been designated as a corporate system for the Commission, in the frame of the IT rationalisation initiative.

Major Audit Findings

The IAS has identified the following very important issue:

Management of low value procurement (report finding N°. 1)

The audit identified weaknesses in a high proportion of the eleven low value procurement files reviewed:

- In 64% of the procedures (7 files), the value of the procurement was very close to the threshold or the procedures consisted of different contracts for recurrent or similar services/delivery of goods with a total value which was above the threshold. The IAS acknowledges that timing and geographic differences may not enable the JRC to know in advance procedures that may, in aggregate, reach the threshold and therefore launch a wider procedure in the first place. This may however raise concerns if the same goods/services are delivered every year and therefore give rise to a perceived risk of splitting of contracts.
- In 55% of the procedures, the justification for the use of the negotiated procedure was not sufficiently justified or the quantity ordered was not accurately estimated.
- In 73% of the procedures (8 files), the order form that formally establishes the contractual relationship was not returned signed by the suppliers.

Recommendation

To address this issue, the IAS formulated the following recommendations:

- Review its strategy for low value purchases following an analysis of the expenditure profile of each site accompanied by actions such as awareness-raising targeting the operational units on the criteria used for determining the choice of procurement procedure.
- Implement specific control measures and/or awareness raising actions to follow-up the financial issues detected during the testing phase of the audit.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendations.

5.6. Limited Review of the calculation and the underlying methodology of DG CNECT's residual error rate for the 2013 reporting year
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Background

The Mutual Expectations Paper on the AAR Peer Review Process, introduced in 2013 in view of the preparation of the 2012 AARs, foresees that the IAS may undertake limited reviews of the calculations and underlying methodologies of residual error rates (RER) of up to three DGs each year selected on a risk basis. These limited reviews take place and are reported to the DGs concerned before their AARs are finalised. Hence, the IAS strategic audit plan for 2013-2015 includes, for 2014, a limited review on the residual error rates reported by DG CNECT for the 2013 reporting year.

Objective and scope

The objective was to review the calculation and underlying methodology of the residual error rate reported by DG CNECT in its (draft) AAR 2013 and so contribute to help mitigate the discharge risk, enabling DG CNECT to take appropriate actions, if any, before their disclosure in the final AAR and Synthesis report.

The scope of the limited review was as follows:

- review of the methodology for the calculation of the residual error rate;
- testing of the calculation of the residual error rates;
- presentation of the residual error rates in the draft AAR (including compliance with the Standing Instructions for the AAR 2013).

In its 2012 AAR the DG made a reservation concerning the rate of the residual errors with regard to the accuracy of cost claims in the 7th Framework Programme's grant agreements.

The review was finalised on 11/03/2014. All observations and recommendations relate to the situation as of that date.

Strengths

DG CNECT follows the FP7 Audit strategy (2009-2016) that was formally adopted by the Commission Research Services in October 2009. DG CNECT bases its assurance regarding legality and regularity of expenditure to FP7 final beneficiaries on an error rate that is calculated from a Common Representative audit Sample (CRaS). The CRaS reduces the audit burden on FP7 beneficiaries, by reducing the number of repeat audits.

The IAS also notes the co-ordination measures in place in the Research family to ensure a common approach for auditing the CRaS, in particular:

- A common audit manual;
- The Audit Steering Committee for harmonizing audit results at DG level;
- The Extrapolation Steering Committee, which decides on the need to proceed with extrapolation cases, if an audit detects a systematic error in cost statements;
- The Coordination Group for External Audits in Research Family (CAR);

- The Audits Internal Supervision Committee, which examines all cases with major errors (over 10% for the CRaS).

Major Audit Findings

Based on the objectives and scope mentioned above, no material risks were identified that would give rise to recommendations rated 'critical' or 'very important'.

6. ECONOMIC AND FINANCIAL AFFAIRS

6.1. Audit on risk management and planning processes in DG ECFIN in the New Economic Governance context
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Background

DG ECFIN plays a central role in the design, negotiation and implementation of the policy responses of the Commission in addressing the impact of the global financial crisis involving banking systems, stock markets, and the flow of credit. This crisis turned into a sovereign debt crisis with a subsequent crisis of confidence in the euro zone.

Since 2008, the DG has grown significantly in terms of the number of staff (from 614 to 816), its responsibilities and the complexity of the regulatory framework within which it works. The DG has also undergone three reorganisations.

Audit Objectives

As with all DGs in the Commission, DG ECFIN is governed by the Strategic Planning and Programming cycle, which includes setting objectives (general policy objectives and specific objectives in the context of Activity Based Budgeting) in the Management Plan (MP), and reporting on policy achievements in the Annual Activity Report (AAR). Risk management feeds into the performance management process through the identification, assessment and addressing of risks to the achievement of the DG's objectives.

The overall objective of the audit was to assess if DG ECFIN has based its management, monitoring and reporting of its new responsibilities in economic governance on effective risk management and planning procedures.

Audit Scope

The audit focussed on the design and conduct of risk management and annual planning and monitoring processes and the practical implementation of these processes, including roles and responsibilities, with a focus on the directorates and units in charge of the new economic governance.

There were no reservations in the 2013 Annual Activity Report related to the scope of the audit.

The fieldwork was finalised on 30/06/2014. All observations and recommendations relate to the situation as of that date.

Strengths

Since 2008, DG ECFIN was required to work under very difficult circumstances, with extreme and unforeseen events taking place in the European and Member State economies. The demands placed upon the DG in terms of workload and the often very tight deadlines within which it had to deliver in a very important and high profile area have been significant.

Though being exposed to these challenges, ECFIN management has ensured that the DG delivered consistently while faced with significant demands. This is in large part due to dedicated hands-on management coupled with the noteworthy field expertise and dedication of its staff, including regular periods of long hours and weekend working, which could be symptomatic of resource shortages.

In this period of challenge and change, the DG has had to ensure delivering all required outputs while simultaneously designing and launching new surveillance and support structures. In meeting its objectives the DG was required to work in what might be termed “a fire-fighting mode”, where the importance of meeting a very large number of often very high priority tasks in a short time frame did not always permit the use of “standard” planning, monitoring, and risk processes.

The IAS recognises that the DG has taken significant steps to ensure that its management and staff have been aware of their key responsibilities, and that these were met on time and to a satisfactory standard. The use of central planning tools to ensure consistency and coordinate the often-complex demands placed on the DG, complemented by a system of regular meetings between managers in the different Directorates responsible has ensured that the DG has planned and delivered its work in a period of acute crisis.

The professionalism and '*esprit de corps*' of the staff has also contributed significantly to the DG's achievement of its objectives.

Major Audit Findings

Based on the objectives and scope mentioned above, no material risks were identified that would give rise to recommendations rated 'critical' or 'very important'.

Overall, the audit confirms that, in a context of economic crisis and challenging constraints, DG ECFIN's management, monitoring and reporting of its new responsibilities in economic governance are based on effective elements of risk management and planning generally in line with the central services' guidelines.

6.2. Audit on DG MARKT's cooperation with the three Supervisory Bodies on Financial Services

Background

Following the outbreak of the financial crisis in 2008, the stabilisation of financial markets became a priority and financial sector reform a crucial instrument to achieve it.

The financial crisis highlighted the need for better regulation and supervision of the financial sector. Three European Supervisory Authorities (ESAs) – the European Banking Authority (EBA), the European Securities and Markets Authority (ESMA) and the European Insurance and Occupational Pensions Authority (EIOPA) – were established on 1 January 2011 to replace the former EU's supervisory architecture.

As one of the main strands of the IAS' 2013-2015 Strategic Audit Plan is to respond to the increased emphasis given to all aspects of *performance* (effectiveness, efficiency and economy), the IAS audit of *DG MARKT's cooperation with the three supervisory bodies on financial services* was included in the IAS 2014 Audit Work Programme..

Audit Objectives

The overall objective of the audit engagement was to assess DG MARKT's current performance management framework to follow up on and monitor cooperation with the three ESAs on financial services and for receiving information and reporting on progress towards the achievement of the policy objectives for European financial supervision.

Audit Scope

The audit reviewed strategy, planning and policy setting processes (including setting of objectives and key performance indicators for the follow-up on and monitoring of the ESAs), the internal organisation and processes, resources allocation, quality assurance of the information received, communication, and the evaluation of the organisation and operations of the ESAs.

The ESAs themselves and the European Central Bank (ECB) were out of the audit scope.

There were no reservations in the 2013 Annual Activity Report related to the scope of the audit.

The fieldwork was finalised on 14/05/2014. All observations and recommendations relate to the situation as of that date.

Strengths

Taking into account that the three ESAs started their operations in January 2011 and still are in their start-up phase until the end of 2014, the auditors recognise the good results DG MARKT already achieved regarding the cooperation with the Authorities.

The following major strengths were identified.

1. Cooperation of DG MARKT with the ESAs

- Both DG MARKT and the ESAs consider their working relationship to be very good.
- The Commission/DG MARKT is involved in all stages of the work of the ESAs and is represented in all meetings of the Management Board, the Board of Supervisors, Steering Groups and in other relevant technical meetings of the ESAs.

- The deadlines of the information/draft technical standards (TS) to be submitted by the ESAs to DG MARKT are monitored by certain units in DG MARKT via monitoring tables.
- The draft evaluation report as well as the accompanying staff working document comply with the majority of the points of the requirements laid down in art. 81 of the Founding Regulations and go in certain areas even beyond the legal requirements.

2. Internal Communication/Coordination in DG MARKT regarding the ESAs

- A central coordination unit in DG MARKT (unit 02) coordinates and monitors – amongst other tasks – all DG MARKT activities with the ESAs. Furthermore, for all budgetary and administrative matters, DG MARKT has designated the advisor in Directorate A to monitor the administration of the agencies and authorities under the responsibility of DG MARKT.
- Unit 02 has recently developed guidelines on the preparation and adoption of delegated and implementing acts in the area of financial services in order to harmonise and improve DG MARKT's way of working with the ESAs.
- DG MARKT staff attending meetings with the ESAs, prepare mission reports right after each mission that are distributed to all staff and management concerned to ensure they have up-to-date information regarding the on-going projects.

Major Audit Findings

Based on the objectives and scope mentioned above, no material risks were identified that would give rise to recommendations rated 'critical' or 'very important'.

Overall, the audit showed that the design and implementation of DG MARKT's current performance management framework regarding the cooperation with the three ESAs is adequate, both for following up on their activities and for receiving information and reports on progress towards achievement of the policy objectives for European financial supervision.

<h4>6.3. Audit on performance measurement system in DG TAXUD Customs Activities</h4>

Background

Following the entry into force of the Lisbon Treaty, the European Commission is required to submit to the European Parliament and the Council a yearly evaluation report on the Union's finances based on the results achieved (Article 318 report). In June 2011, the central services of the Commission reminded operational services that the current financial and economic crisis and severe constraints in public spending has shifted the focus to achieving more with less and that post-2013 spending programmes should place a greater focus on performance measurement.

In order to meet stakeholders' expectations, one of the objectives of the IAS in its Strategic Audit Plan for the period 2013-2015 is to carry out performance audits focusing on the economy, efficiency and effectiveness of the use of resources. A number of audits have been planned to assess the performance measurement system of DGs, including the present on customs activities in DG TAXUD.

The functioning of the Customs Union relies on a close cooperation between DG TAXUD and national administrations. The main instruments to support the implementation of the customs policy was the Customs 2013 programme till 2013 and is the new Customs 2020 programme²⁴ from 2014 onwards, which will contribute to the EU 2020 strategy by boosting the effectiveness of the Member States' customs administrations' operational work and provide economies of scale. A priority for 2014 will be to further progress towards e-Customs, a modern and paperless environment for customs and trade based on the Union Customs Code (UCC) adopted on 9 October 2013.

Audit Objectives

The main objective of the audit was to assess the extent to which DG TAXUD had an adequate performance measurement framework in place for customs activities both in terms of its day to day operational and administrative activities (internal) and in terms of the delivery of policy objectives (external).

Audit Scope

The scope of the audit included:

- a horizontal analysis of DG TAXUD's internal processes for setting objectives and key performance indicators (KPI) as well as related reporting and monitoring systems, and
- a review of the processes for setting objectives, indicators, monitoring, evaluation and performance reporting concerning customs activities.

The monitoring of Customs Legislation implementation was out of scope since it was covered by an IAS audit in 2012. In addition, pure IT activities were also out of scope since an IAS audit was scheduled later this year. Some HR aspects were the subject of the IAS Performance audit on the efficiency and effectiveness of the planning stage of the selection process completed in April 2014 and covering DG TAXUD among other sampled DGs.

There were no observations/reservations in DG TAXUD's Annual Activity Report (AAR) that related to the area/process audited.

The fieldwork was finalised on 01/12/2013. All observations and recommendations relate to the situation as of that date with the exception of the 2014 Management Plan, which was also taken into account.

²⁴ REGULATION (EU) No 1294/2013 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL of 11 December 2013 establishing an action programme for customs in the European Union for the period 2014-2020 (Customs 2020) and repealing Decision No 624/2007/EC (Customs 2013 programme)

Strengths

The auditors recognise the ongoing efforts made by DG TAXUD to improve performance measurement in the area of customs activities in the context of the Commission's ongoing move towards a performance culture. Beyond the implementation of such standard processes as strategic planning and programming, risk management and evaluation, the IAS identified the following strengths:

- A Performance Measurement System at the level of the EU Customs Union was developed with Member States' support and endorsed in December 2013. After a pilot phase, it is becoming operational in 2014 and it will be progressively fine-tuned.
- A Performance Measurement Framework for the monitoring of the Customs 2020 programmes' implementation is currently under preparation. The recent regulation establishing the programme includes the list of indicators to measure the objectives.
- The Electronic Customs Multi-Annual Strategic Plan (MASP) is a management and planning tool for the development and implementation of e-Customs, including its regulatory and operational aspects. This document is reviewed and updated regularly.
- The Business Process Modelling Approach is a powerful instrument to support and improve the functioning of the Customs Union and facilitate the use of many IT systems.
- Development of tools for efficient collaboration of DG TAXUD with MS and between MS. DG TAXUD has built a number of pilot tools and projects (PICS: Programme Information and Communication Space) which modernise the way programme participants collaborate and cooperate.

Major Audit Findings

The IAS has identified the following two very important issues:

Performance measurement of Customs Committees and Groups (report finding N^o.1)

The current system of 13 Customs Code Committee Sections that assist the Commission in implementing EU customs legislation and over 150 Groups providing advice and expertise is complex and resource consuming for both national administrations and the Commission (e.g. interpretation, translation, travelling, logistics, etc.). An effective performance measurement system is lacking, especially for the numerous Project Groups to assess needs, optimise meetings, monitor outputs, milestones and priorities and to provide a comprehensive overview of the resources employed (human, financial and logistics).

Performance measurement of DG TAXUD internal activities in the customs area (report finding N^o.2)

DG TAXUD's current performance measurement system does not allow its management to optimally plan, coordinate, assess, follow up and supervise the diverse and technical internal activities the DG relies on. For example, the DG's Management Plan does not clearly distinguish its own specific mission and objectives from those of the Customs Union. Therefore, its implementation depends also on factors beyond DG TAXUD's

control. DG TAXUD plans, measures and reports on performance only partially at the operational level. Risk management is not proactive enough to increase the chances of achieving the objectives. Operational information and knowledge are not shared enough across the DG.

Recommendations

To address these issues, the IAS formulated recommendations which can be summarised as follows:

DG TAXUD should:

- set up a more effective performance measurement system for Committees and Groups with clearer responsibilities, improved coordination and resource monitoring.
- improve its own performance measurement system by using more effectively the Management Plan and risk management as management tools and by strengthening internal communication.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendations.

7. EXTERNAL AID, DEVELOPMENT AND ENLARGEMENT

7.1. Audit on contribution agreements with UN bodies and other International Organisations – DG DEVCO

Background

The Financial Regulation (FR) applicable to the General Budget of the European Union (EU) and the European Development Fund (EDF) sets out the various methods of implementation of the budget. Under the indirect management mode²⁵, the Commission can entrust budget implementation tasks to, *inter alia*, International Organisations whereby projects/actions may be implemented through contribution agreements (either as a single donor or with other donors, i.e. multi-donor actions).

DG DEVCO implements development and cooperation aid under the indirect management mode through a various range of international organisations (hereafter International Organisations – IOs): United Nations (UN) bodies and entities, World Bank Group entities, other international or regional Organisations. The financial and contractual aspects of the cooperation with the UN and the World Bank are contained in framework agreements: the Financial and Administrative Framework Agreement (FAFA) for UN bodies and the Trust Funds and Cofinancing Framework Agreement for the World Bank. This allows UN bodies and the other International Organisations to implement EU development aid projects on behalf of the EU through funding decisions that are translated into one or more contribution agreements (or indirect management delegation agreements – IMDA²⁶ – as from 1 January 2014) under the indirect management mode²⁷. In 2013, total payments made by DG DEVCO under the indirect management mode with IOs amounted to €1,423.48 m²⁸, representing 21% of the DG's total payments for the year.

This management mode creates challenges and risks for DG DEVCO in the achievement of its policy objectives. In addition, there are high stakeholders' expectations for the Commission to move to a new performance-based culture and to demonstrate value for money in the implementation of the EU budget.

As a result, IOs wishing to implement projects with EU funds under the indirect management mode are subject to an ex-ante assessment under the so-called "pillar"

²⁵ Under the previous Financial Regulation, there were similar requirements under "joint management" with International Organisations.

²⁶ NB: IMDA only partially replaces the previous standard contribution agreements since it only applies to indirect management. Depending on the nature of the tasks entrusted, cooperation with IOs may now also take the form of grants (for which specific provisions have been developed) or indeed procurement contracts. Also, cooperation with IOs may also include contracts signed directly between the partner countries and IOs for the implementation of EU funds (as it was the case under the former Financial Regulation, under "decentralised" management mode).

²⁷ Joint management mode under the Financial Regulation in force until 31 December 2012.

²⁸ Ref. DG DEVCO's 2013 AAR (page 127).

system²⁹. The aim is to assess whether the organisation's procedures are suitable and offer sufficient guarantees regarding the management of EU funds. DG ECHO also performs a pillar assessment of its partners implementing humanitarian aid.

Audit Objectives

The objective of this audit was to assess the efficiency and effectiveness of the processes and procedures in place in DG DEVCO to implement the development and cooperation aid actions through contribution agreements with international organisations.

In particular, the audit assessed the following:

- The robustness of the methodology in place for the pillar assessment;
- The alignment of the operational strategy in place with the strategic objectives of DG DEVCO;
- The effectiveness of the monitoring and reporting processes of the international organisations;
- The efficiency of the coordination with DG ECHO.

The IAS conducted in parallel an audit on the same topic in DG ECHO.

Audit Scope

The audit focused on the following issues related to the management of contribution agreements with UN Agencies and International Organisations:

- Review of the design and implementation of the pillar assessment process,
- Assessment of DG DEVCO's strategic and operational planning: objective setting, key performance indicators, controls set up by DG DEVCO at identification/formulation stage (identification fiche, before signature of the contract, review of the detailed explanations and rationale for the decision to work with an IO), alignment of actions of IOs with strategic objectives of DG DEVCO, definition of SMART³⁰ objectives monitored through RACER³¹ indicators on outputs³² and impacts³³,
- Monitoring and reporting: (i) project monitoring, (ii) review of the financial and narrative reports submitted by international organisations, (iii) design, implementation and follow-up of the audit plan related to verification missions with international organisations, (iv) general reporting based on information in CRIS,

²⁹ Article 60(2) of the Financial Regulation applicable to the general budget of the European Union. The assessment consists of six elements (i) internal control, (ii) accounting system, (iii) external audit, (iv) rules and procedures (for grants, procurement and financial instruments) for providing financing from Union funds, (v) ex-post publication of information on recipients, and (vi) protection of personal data.

³⁰ Specific, Measurable, Achievable, Relevant, Timely.

³¹ Relevant, Accepted, Credible, Easy and Robust.

³² What is produced or accomplished with the resources allocated to an intervention.

³³ Impacts are the long-term socio-economic consequences that can be observed a certain period after the completion of an intervention.

- Coordination between DG DEVCO and DG ECHO.

The audit did not cover:

- The legality and regularity of individual transactions (i.e. payments or cost eligibility issues) related to the implementation of the contribution agreements³⁴;
- The contracts awarded to International Organisations under direct management mode, i.e. grant or procurement contracts where the International Organisation is the beneficiary following a call for proposal or a call for tender or as an exception to the call for proposal (under article 190 of the Financial Regulation).

The following IOs were included in the scope of the audit: UN bodies, entities and agencies, World Bank Group entities and other international/regional organisations.

In its 2012 and 2013 Annual Activity Reports (AAR), DG DEVCO made a global reservation based on a most likely estimate of the representative residual error rate of 3.63% and 3.35% respectively, due to the significant occurrence of legality and regularity errors in the underlying transactions, with International Organisations accounting for an important share of the errors identified "in two areas — budget support and EU contributions to multi-donor projects carried out by international organisations such as the UN — the nature of the instruments and payment conditions limit the extent to which transactions are prone to errors as defined in the Court's audit of regularity"³⁵. source: ECA, 2012 Annual Report on the activities funded by the 8th, 9th and 10th European Development Funds (EDFs), paragraph 7 and 2012 Annual Report on the implementation of the EU budget, paragraph 7.6.

The fieldwork was finalised on 27 March 2014. All observations and recommendations relate to the situation as of that date.

Major Audit Findings

Based on the objectives and scope mentioned above, no material risks were identified that would give rise to recommendations rated 'critical' or 'very important'.³⁶

³⁴ These are covered through the audit of the design and implementation of the different control layers set up by DG DEVCO, notably the verification missions. In addition, the legality and regularity of transactions is audited by the European Court of Auditors.

³⁵ Source: ECA, 2012 Annual Report on the activities funded by the 8th, 9th and 10th European Development Funds (EDFs), paragraph 7 and 2012 Annual Report on the implementation of the EU budget, paragraph 7.6.

³⁶ In a recommendation rated 'important' the IAS recommended DG DEVCO to take appropriate steps to enable it to assess the achievement of projects' objectives and performance targets by developing and disseminating best practices to Headquarters units and EU Delegations regarding project monitoring and reporting, such as reporting examples and guidance on budget. DG DEVCO rejected this recommendation as they consider that it would not be in line with the financial rules applicable to indirect management, by which the international organisations decide on their reporting and budget templates. The IAS drew the DG's attention to the fact that this recommendation did not relate to the legal framework but to a management issue.

The IAS concluded that DG DEVCO has taken appropriate steps since the adoption of the new Financial Regulation in order to adapt its internal control layers to these new requirements.

7.2. Audit on contribution agreements with international organisations - DG ECHO

Background

The mandate of the Directorate-General for Humanitarian Aid and Civil Protection (DG ECHO) encompasses humanitarian assistance and civil protection, the two main instruments at the disposal of the European Union to ensure a rapid and effective delivery of EU relief assistance to people faced with the immediate consequences of disasters. DG ECHO does not implement assistance programmes itself³⁷. DG ECHO is a donor and implements its mission by funding Community humanitarian actions through its partners.

DG ECHO works with a range of organisations (UN bodies, other International Organisations³⁸, Non-Governmental Organisations (NGOs), and specialised agencies of Member States) to support its humanitarian objectives. The financial and contractual aspects of this cooperation are contained in the Financial and Administrative Framework Agreement (FAFA) for UN bodies and in the Framework Partnership Agreement for other International Organisations (FPA IO). This allows UN bodies and the other International Organisations to implement EC humanitarian aid projects on behalf of the EU through funding decisions that are translated into one or more contribution agreements under the indirect management mode³⁹. The use of these organisations offers a number of benefits, such as local knowledge and proximity and their ability to operate in areas prone to political, security or access issues. This management mode however creates challenges and risks for DG ECHO in the achievement of its policy objectives. In addition, there are high stakeholders' expectations for the Commission to move to a new performance-based culture and to demonstrate value for money in the implementation of the EU budget. In 2012, funds for humanitarian operations committed by DG ECHO under the indirect management mode amounted to €97,2m, representing 46% of the DG's total commitments for the year, and implemented by its ten main partners⁴⁰.

DG ECHO's partners are subjected to an ex-ante assessment of their project implementation capacity under the so-called "pillar" system⁴¹. The aim is to assess whether the organisation's procedures are suitable and offer sufficient guarantees regarding the management of EC funds. Following the entry into force of the new

³⁷ With the exception of the provision of the 'ECHO flight' service which aims to open up remote areas to humanitarian aid agencies.

³⁸ The three International Organisations are the International Committee of the Red Cross (ICRC), the International Federation of the Red Cross and Red Crescent Societies (IFRC), and the International Organisation for Migration (IOM).

³⁹ Joint management mode under the Financial Regulation in force until 31 December 2012.

⁴⁰ Seven UN bodies and three International Organisations.

⁴¹ Article 60(2) of the Financial Regulation applicable to the general budget of the European Union. The assessment consists of six elements (i) internal control, (ii) accounting system, (iii) external audit, (iv) rules and procedures (for grants, procurement and financial instruments) for providing financing from Union funds, (v) ex-post publication of information on recipients, and (vi) protection of personal data.

Financial Regulation (FR) on 1 January 2013, all UN bodies and International Organisations (hereafter International Organisations – IOs) must be re-assessed in order to be eligible for funding under the indirect management mode.

In the Commission, DG DEVCO is the chef-de-file for all DGs in certain areas related to external actions. It provides guidance and instructions as well as leads the negotiations with international partners, participates in the FAFA working group, and negotiates framework agreements with UN bodies or other international organisations. DG DEVCO has developed the pillar assessment methodology and performs a pillar assessment of its partners implementing development aid. DG ECHO negotiates its own framework partnership agreements with the ICRC, IFRC and IOM.

Audit Objectives

The objective of the audit was to assess the efficiency and effectiveness of the processes and procedures in place in DG ECHO to implement humanitarian aid actions administered through contribution agreements with international organisations.

In particular, the audit assessed the following:

- The robustness of the methodology in place for the pillar assessment;
- The alignment of the operational strategy in place with the strategic objectives of DG ECHO;
- The effectiveness of the monitoring and reporting processes of the actions by international organisations;
- The efficiency of the coordination with DG DEVCO.

Audit Scope

The audit focused on the following issues related to the management of contribution agreements with UN Agencies and International Organisations:

- Review of the design and implementation of the pillar assessment process,
- Assessment of DG ECHO's strategic and operational planning: objective setting, key performance indicators, controls set up by DG ECHO at identification/formulation stage (identification fiche, before signature of the contract, review of the detailed explanations and rationale for the decision to work with an IO), alignment of actions of IOs with strategic objectives of DG ECHO, definition of SMART⁴² objectives monitored through RACER⁴³ indicators on outputs⁴⁴ and impacts⁴⁵,
- Monitoring and reporting: (i) project monitoring, (ii) review of the financial and narrative reports submitted by international organisations, (iii) design,

⁴² Specific, Measurable, Achievable, Relevant, Timely.

⁴³ Relevant, Accepted, Credible, Easy and Robust.

⁴⁴ What is produced or accomplished with the resources allocated to an intervention.

⁴⁵ Impacts are the long-term socio-economic consequences that can be observed a certain period after the completion of an intervention.

implementation and follow-up of the audit plan related to verification missions with international organisations, (iv) general reporting based on information in HOPE, and actions funded through EDF as reported in CRIS (financial),

- Coordination between DG ECHO and DG DEVCO.

The following international organisations were included in the scope of the audit: UN bodies, entities and agencies, and Other International organisations. The audit did not cover the management of humanitarian aid implemented under the Direct Centralised Management mode with NGOs or the actions implemented by the specialised agencies of Member States.

There were no observations/reservations in the 2013 AAR that relate to the area/process audited.

The fieldwork was finalised on 7 April 2014. All observations and recommendations relate to the situation as of that date.

Strengths

UN bodies and International Organisations play a key role in implementing humanitarian aid projects and thereby contributing to the achievement of DG ECHO's humanitarian objectives. The IAS recognises the efforts made by DG ECHO (together with DG DEVCO) in enhancing the earlier pillar assessment methodology of IOs by moving away from a desk review focused primarily on the design of the organisations' internal controls to a more explicit focus on their effective implementation through a walkthrough of a limited number of transactions by process. This has enabled the DG to obtain a better understanding of its partners' administrative systems and procedures.

In terms of needs analysis, the IAS notes that DG ECHO has a worldwide network of field offices that is closely involved in the day-to-day follow-up of the DG's projects and provide up to date analysis of the humanitarian needs for a given country or region. This knowledge is effectively used by DG ECHO in developing its intervention strategies, namely through its Annual Operational Strategy and Humanitarian Intervention Plan (HIP). In recent years, DG ECHO has considerably improved the planning and decision-making processes of its projects by introducing a series of internal management tools such as the HIP, an Integrated Analytical Framework (IAF) and a Project Dashboard. In addition, as from 2011, DG ECHO has streamlined and rationalised its financing decision-making process by grouping the previous country decisions, global plans and ad-hoc decisions into a single worldwide decision (WWD).

The IAS also notes that the objectives of humanitarian aid as set out in the HIP are clearly formulated, with a clear link between the operational objectives and those outlined in the individual projects. The use of the Single Form⁴⁶ and logical framework⁴⁷ as project development tools enable DG ECHO's partners to better plan their projects as

⁴⁶ The Single Form (Annex 1 of the Contribution Agreement) is used by DG ECHO's partners to submit their Action proposal for funding.

⁴⁷ The Single Form includes a logical framework template, which contains the project objectives, objectively verifiable indicators, sources of verification as well as risk and assumptions at the project level.

well as provide a good framework for DG ECHO to assess the proposals and subsequently monitor the progress of the projects.

Major Audit Findings

The IAS has identified the following three very important issues:

Monitoring framework (report finding N° 1)

- The IAS notes that DG ECHO implements its projects largely with the same partners. In accordance with its monitoring strategy, all projects are the subject of a monitoring visit at least once during their life cycle. As a result, pre-defined risk criteria which may render the process more cost-effective are not used for the selection of projects to be visited. In addition, the monitoring visits do not particularly focus on an assessment of the level of achievement of objectives against set benchmarks or targets.
- The pillar assessment methodology does not currently enable DG ECHO to assess upfront its partners' ability to monitor and report against set objectives, key performance indicators and targets and to provide reliable data for performance monitoring purposes. While the FR requires the achievement of value for money (principle of sound financial management), which the Commission is placing a greater focus on, the pillar assessment methodology does not specifically address this point. The setting, monitoring and reporting against well-selected performance measures is the foundation of a good performance measurement system which not only determines what needs to be done but also sets the conditions for success.

Reporting (report finding N°2)

Although implementation issues were reported by the project teams in the majority of the projects included in the audit sample⁴⁸, there is no clear documented audit trail justifying the approval of the final payment and corrective actions taken by the partner.

Verification strategy (report finding N°3)

The audit revealed that there is no consolidated verification strategy (i.e. HQ and Field verifications) in place which considers how other assurance and monitoring activities (e.g. pillar assessments and monitoring visits) complement this activity in order to strike an optimal balance between benefits and costs.

Recommendations

To address these issues, the IAS formulated recommendations which can be summarised as follows:

DG ECHO should:

- Further develop its monitoring framework and take appropriate steps to evaluate the ability of its partners to monitor and report on the achievement of their objectives and results.

⁴⁸ Eleven projects (55%).

- Develop an overall monitoring framework that takes into account the most common reason for project failures and take due account when making the final payment of projects that have not fully or only partly achieved their objectives.
- Consolidate its verification strategy to include objectives and targets and address the cost benefit of controls.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendations.

<p>7.3. Audit on the assurance building process in EU Delegations – DG DEVCO</p>

Background

The audit on *DG DEVCO – Assurance Building Process in EU Delegations* was included in the IAS 2014 Audit Work Programme following the audit risk assessment carried out in 2013 as part of the preparation of the IAS's Strategic Audit Plan for 2013-2015.

DG DEVCO operates in a highly risky and complex environment. Its activities are geographically dispersed, with a high level of risk associated with the "developing country" context and consist of a diversity of implementing organisations and partner countries, aid delivery methods and management modes. The 2013 payments amounted to €6,962 million (€3,768 million under the EU budget and €3,194 million under the European Development Fund - EDF), implemented mostly in a devolved manner, with around 75-80% of the resources managed in the EU delegations.

In 2010, DG DEVCO launched a major revision of its internal control architecture (Control Pyramid strategy). This initiative resulted in a number of specific actions including a new web-based reporting tool (External Assistance Management Reports - EAMR) which is considered to be the foundation of DG DEVCO's control pyramid. The EAMR is both a management tool to report on progress made and issues related to the implementation of EU development and cooperation aid and an accountability tool, which includes a statement of assurance signed by the Head of Delegation on the management of funds sub-delegated to him by DG DEVCO's Geographic Directors.

The HoDs are staff members of the European External Action Service (EEAS) but, according to the Financial Regulation, when they act as sub-delegated authorising officers (SDAOs) of the Commission, they apply the Commission's rules for the implementation of the funds and are subject to the same duties, obligations and accountability as any other SDAO of the Commission.

Audit Objectives

The objective of the audit was to assess the adequacy and effective application of the internal control system, risk management and governance processes related to the assurance building process within EU Delegations.

Audit Scope

The audit focused on the following elements related to the assurance building process in EU Delegations:

- A review of the design and definition of DG DEVCO's KPIs used for the 2013 EAMR exercise (notably to assess to which extent their definition/calculation reflects the reality of operations and activities in EUDs);
- A review of the EUDs' 2013 results compared to their objectives as set out in their annual management plan;
- A review of the set-up of the internal organisation within the EUD for the assurance building process, i.e. the continuous monitoring and reporting of the EUDs' internal control system and results of key controls(not only limited to the EAMR process);
- A review of the content of the EAMR (narrative vs. financial data);
- A review of the accuracy and reliability of the results of the KPIs as defined by DG DEVCO HQ and implemented by EUDs, based on a sample of KPIs (out of 26).

The audit did not cover:

- Transaction/payment checks (as these are already covered by the European Court of Auditors (ECA), and DG DEVCO's Residual Error Rate (RER) study, audits and verifications of expenditure).
- The EUDs' internal control environment outside the assurance building process.
- The reliability of data in the Common Relex Information System (CRIS) as systemic issues and weaknesses related to the system have already been raised in previous reports (e.g. Special Report no. 5/2012 of the ECA).

The fieldwork was finalised on 3 October 2014. All observations and recommendations relate to the situation as of that date.

Strengths

One of the fundamental elements of the assurance-building process in DG DEVCO is the assurance provided by Heads of Delegations in their EAMRs that the resources assigned to the activities of the EUD have been used for their intended purpose and in accordance with the principles of sound financial management. A good assurance confirms whether the internal control system in place is operating effectively by identifying and helping to mitigate any risks to an efficient and effective implementation of development aid.

In 2013, DG DEVCO undertook a major revamp of the design of its EAMR (applicable for the first time to the 2013 reporting year). It resulted in a streamlined structure, the definition and integration of Key Performance Indicators (KPIs) in the report (with the

calculation of the actual KPIs fully or partially automated), the use of DG-wide benchmarks in the EAMR and the use of a traffic lights system (based on an assessment of the EUD's results against the benchmarks), thus enabling a comparison among the EU Delegations and across geographical directorates in DG DEVCO.

In addition, the IAS notes that the review of the EAMR template and of the design of the KPIs (definition and benchmarks) is an on-going process with lessons still being learnt. On 24 July 2014, DG DEVCO's management approved a set of partially revised KPIs and benchmarks and a new EAMR template for the 2014 reporting year.

Major Audit Findings

The IAS has identified the following very important issue:

Management representation and reservations, Statement of Assurance by Heads of Delegation (report finding n°.1)

There is no clear guidance given on where and how a reservation should be expressed by an EUD with DG DEVCO's instructions stating that a reservation should be included in the text of the declaration of assurance and/or the dedicated annex. As a result, it is unclear if comments added after a positive declaration should be treated as a reservation and therefore be accompanied by an estimate of the potential financial/reputational impact or by the corrective measures taken and/or planned. In addition, the IAS noted that in some cases management representations (i.e. comments included in the statement of assurance by the HoDs) were not complemented with sufficient information or with contextual explanations on the potential impact of the internal control weaknesses identified.

Recommendations

To address this issue, the IAS formulated recommendations which can be summarised as follows:

DG DEVCO should improve its guidance on:

- The definition of a reservation, including elements that should be taken into account when considering the issuance of a reservation by EUDs, notably its:
 - potential financial or reputational impact at EUD level, and
 - scope, i.e. weakness(es) identified should affect the payments of the year or, if reputational by nature, the risk should have materialised during the reporting year.
- The consequences of a reservation: when issuing a reservation, an EUD should highlight the weaknesses in its internal control system or the specific circumstances (security issues, political environment, etc.) in the country that prevented it from fully or only partially implementing the various internal control layers. It should also state the main actions defined, implemented or planned to be implemented in order to remedy the situation.

The audited services have established action plans which the IAS considers satisfactory to address the accepted recommendations⁴⁹.

7.4. Audit on budget support in DG DEVCO

Background

The audit of *Budget Support* in DG DEVCO was included in the IAS 2014 Audit Work Programme following the audit risk assessment carried out in 2013 as part of the preparation of its Strategic Audit Plan for 2013-2015.

Budget Support (BS), financed both by the EU Budget and by the European Development Fund (EDF), represents around 20% of the total aid to third countries⁵⁰. The general objectives of this aid modality are to assist in eradicating poverty, promoting sustainable and inclusive growth, and consolidating and improving democratic and economic governance. The four major components of the BS aid modality consist of policy dialogue, performance and result assessment, capacity development, and financial transfers.

The specificity of BS is that the use of the money contributed cannot be traced, as the funds are transferred to the country's national treasury. The Commission's responsibilities when accounting for and auditing these resources are therefore limited to ensuring that the conditions for disbursement have been met and that the funds have been transferred in accordance with the agreement signed with the country.

At the end of 2013, there were 256 BS operations implemented or under preparation in 84 countries, with ongoing commitments amounting to €10 779 million⁵¹. Africa and European Neighbourhood Partnership countries are by far the largest recipients of budget support funds (44% and 31% of total ongoing commitments in 2013 respectively).

The use of certain aspects of budget support by the Commission has been challenged over the years by the European Parliament's Committees on Development (DEVE) and on Budgetary Control (CONT), as well as by Member States. In addition, in its Special

⁴⁹ In one recommendation rated 'important', the IAS recommended that DG DEVCO should require EU Delegations (EUD) to (i) analyse the root cause of errors detected during the DG's annual Residual Error Rate (RER) study, and (ii) if and when systemic errors or fraud-related issues are identified during this study, to include these in the EUDs' subsequent External Assistance Management Reports (EAMR) (on the implementation of EU development and cooperation aid including the Head of Delegation's statement of assurance on the management of funds sub-delegated to him) together with any actions taken to mitigate the risks. DG DEVCO rejected the recommendation on the basis that the results of the RER study are not representative for individual Delegations, the RER study is only available after the completion of the EAMR and is just one of the tools through which fraud can be identified. The IAS replied to the DG by stressing that the recommendation focuses on the mitigation of systemic and fraud-related risks, if any, that had not been detected by all previous controls, and the EUDs reporting on this in the EAMR, and does not require the EUDs to use the RER study results to measure their weaknesses.

⁵⁰ In 2013, BS disbursements amounted to €1.5 billion, representing 22.0% of total disbursements (€6.8 billion) of both the budget and the EDF (source: DG DEVCO, Budget Support Financial Implementation, Risk Assessment and Selected Macroeconomic and Fiscal Country Results 2013).

⁵¹ Budget Support Financial Implementation, Risk Assessment and Selected Macroeconomic and Fiscal Country Results 2013, page 5.

Report 11/2010⁵², the European Court of Auditors (ECA) identified weaknesses in the Commission's management of budget support. In response to the concerns of Member States for BS to be more strongly linked to the fundamental values of human rights, democracy and the rule of law, the Commission adopted in 2011 a "*Communication on the future approach to EU budget support to third countries*"⁵³. It established a new approach to BS which is enshrined in the new "*Budget Support Guidelines*"⁵⁴ issued in September 2012 and effective from 1 January 2013.

Audit Objectives

The objective of the audit was to assess DG DEVCO's approach to budget support and, in particular, whether DG DEVCO's processes to manage its budget support operations were efficient and effective.

Audit Scope

The audit focused on the following, based on a sample of budget support contracts:

- Review of the design and implementation of the policy dialogue process which contributes to the conclusion as to whether or not the government policy is considered sufficiently relevant and credible and if its implementation can be supported with a BS programme;
- The efficiency and effectiveness of the decision making process in the identification and formulation phases leading to (i) whether or not to grant BS, (ii) setting the amount of BS to provide, (iii) establishing the fixed and variable tranches, and (iv) establishing the conditions for the release of variable tranches;
- The effectiveness and consistency of the risk assessment process at the identification and formulation stages;
- The efficiency of coordination between DEVCO HQ and EUDs at the identification and formulation stages, including an assessment of the new structure following the decision not to create regional hubs.

The following were not included in the scope of the audit:

- The intermediate results/indicators leading to payments, as the ECA analyses the specific conditions for payment in the context of its Annual Report⁵⁵;
- The evaluations/final impact of budget support as DG DEVCO has recently conducted a study on "The uptake of strategic evaluations into EU development

⁵² Special report 11/2010: "The Commission's management of general budget support in ACP, Latin American and Asian countries".

⁵³ COM (2011) 638, adopted on 13/10/2011 and preceded by the "Green Paper on the future of EU Budget Support" COM(2010) 586, dated 19 October 2010.

⁵⁴ https://ec.europa.eu/europeaid/sites/devco/files/methodology-budget-support-guidelines-201209_en_2.pdf

⁵⁵ The Court examines whether the Commission has complied with the specific conditions for making budget support payments to the partner country concerned and has demonstrated that general eligibility conditions (such as progress in public sector financial management) have been complied with (ECA, 2013 Annual Report on the implementation of the EU budget, paragraph 7.7).

cooperation" and issued a "Synthesis Analysis of the Findings, Conclusions and Recommendations of 7 Country Evaluations of Budget Support";

- The financial transfers to the national treasury account of the partner country which has been assessed to be less prone to errors as defined in the Court's audit of regularity⁵⁶;
- The reliability of the Common Relex Information System (CRIS) data which is currently the subject of an extensive review by DG DEVCO⁵⁷.

In his Annual Activity Reports for the years 2012 and 2013, the Director-General of DG DEVCO included a global reservation on all ABB activities owing to:

- a residual error rate (RER) of 3.63% and 3.35% respectively, due to the significant occurrence of errors (legality and regularity); and
- the findings of ECA during the 2011 and 2012 Declaration of Assurance (DAS) exercises⁵⁸.

The estimated amount at risk for the Community budget in 2013 was €228.55 million⁵⁹.

The fieldwork was finalised on 22 October 2014. All observations relate to the situation as of that date.

Strengths

The following main strengths were identified during the fieldwork for the audited processes:

- The Budget Support Guidelines⁶⁰ provide appropriate guidance in the design and implementation of budget support operations, in line with the relevant communication issued by the European Commission ("The Future Approach to EU Budget Support to Third Countries"⁶¹);
- There is evidence that policy dialogue is appropriately coordinated with other donors at country level.
- There is appropriate coordination and division of tasks between the headquarters and the EUDs at the identification and formulation stages of the process.

The IAS notes that a number of DG DEVCO initiatives were on-going at the time of the audit fieldwork:

⁵⁶ *ibid.*, paragraph 7.6.

⁵⁷ Simplification of EuropeAid Business and Support Processes – Phase 2 report – page 157.

⁵⁸ For 2012 ECA found an estimated error rate for transactions of 3.3% for the EU budget in the External Relations, Aid and Enlargement policy group and of 3% for the European Development Fund (EDF).

⁵⁹ Calculated by multiplying the most likely estimate of the residual error rate (3.35%) by the value of payments made by DG DEVCO in 2013.

⁶⁰ Issued in September 2012.

⁶¹ Dated 13 October 2012.

- Drafting of the new/revised Project and Programme Cycle Management (PPCM) guidelines (including a specific chapter on Policy Dialogue), under the supervision of Unit DG DEVCO.06;
- A DG-wide simplification exercise of business and support processes under the supervision of unit DG DEVCO.DG.02 *General Coordination*.

The IAS took into account these latest developments when drafting its findings and recommendations.

Major Audit Findings

The use of budget support offers many benefits and can be an effective component of development aid by supporting discussion with the governments of partner countries over policies and strengthening their public financial management by contributing to capacity development. However, it also carries many significant risks that the partner country may not be capable of using the funds efficiently and effectively and that government expenditures will consequently not achieve the objectives agreed between the government and development partners, which ultimately may affect the attainment of the DG's objectives. The audit concludes that the revised *Budget Support Guidelines* constitute a significant improvement compared to the last one, with a stronger link to the fundamental values of human rights, democracy and the rule of law. The *Budget Support Guidelines*, together with the strengthened risk management framework, provide a good basis for informing decision-making. The IAS welcomes the upcoming review of the *Budget Support Guidelines* in time to orient the implementation of the new Multiannual Indicative Programmes⁶² and which is intended to respond to specific areas of concern that the services expressed during the first two years of their implementation. However, some weaknesses in BS remain, in particular in the framework of policy dialogue (objectives, content, etc.) and in documenting roles and contributions to the process, in order to demonstrate a consistent and coherent implementation of policy dialogue and of the *Budget Support Guidelines* (report finding No 1).

Recommendation

To address this issue, the IAS formulated the following recommendation:

DG DEVCO should improve the current guidance on policy dialogue (applicable also to budget support operations), notably as regards the relationship between political dialogue and policy dialogue, the ways to develop a strategic approach to policy dialogue; the issues and content of policy dialogue to consider throughout the project/programme cycle and the implementation of policy dialogue. DG DEVCO should also include policy dialogue elements for a certain sector/subsector in the Financing Agreement⁶³ to better

⁶² The multiannual indicative programmes (MIPs) set out the Union's interests and priorities, specific objectives and expected results for the countries in question. MIPs under the 11th EDF for the period 2014-2020 are currently being signed. They will indicate, as in previous programming cycles, the priority areas selected for Union financing and should indicate in general terms, for the relevant period, the indicative allocation of funds for each priority area and for each partner or group of partner countries. Unlike previous programming (MIPs signed for the 2008-2013 period), they no longer indicate the implementation modality that will have to be used. They indicate general lines of action instead and refer to a decision on the exact modalities at the identification stage, closer to the start of implementation.

⁶³ Or in another document agreed with the national authorities.

anticipate the main orientations of the policy dialogue (based on the partner country's own strategy and priorities, in line with the alignment strategy) and ultimately contribute to the achievement of the targeted results for the specific indicators defined in the Technical and Administrative Provisions (TAPs).

The audited service has established an action plan which the IAS considers satisfactory to address the recommendation.

7.5. Audit on the control strategy in FPI

Background

The Service for Foreign Policy Instruments (FPI) was created in 2011 to assist the then newly created European External Action Service (EEAS) in achieving the objectives of the EU's Common Foreign and Security Policy (CFSP). FPI manages an important part⁶⁴ of the foreign policy budget. It is responsible, *inter alia*, for the operational and financial management of CFSP operations and of the crisis component of the Instrument for Stability (IfS). The "Civilian Planning and Conduct Capability" (CPCC)⁶⁵, which is part of the EEAS, provides strategic direction and is the permanent structure responsible for the conduct of civilian CSDP operations.

FPI implements its budget in complex circumstances which create specific risks. The environment in which it operates involves many geographically dispersed actors in order to respond to international crises and conflicts which require rapid and flexible actions. As a result, a particular feature of the CFSP operating environment is that each Common Security and Defence Policy (CSDP) mission is created from scratch without prior assurance that they fulfil the requirements of the "pillar assessment"⁶⁶ as stipulated by Article 60 of the Financial Regulation (FR), which may increase the risk of fraud.

The CFSP budget (€353 million for new contracts in 2013)⁶⁷, is mainly implemented (around 95%) under the indirect management mode through financing agreements with eleven CSDP missions⁶⁸ with specific mandates decided by the Council (e.g. fostering rule of law, monitoring agreements, border assistance management, etc.) and twelve EU Special Representatives⁶⁹ (EUSRs) with a mandate to promote the EU's policies and interests.

⁶⁴ €742 million in 2013.

⁶⁵ The Civilian Planning and Conduct Capability (CPCC) is mandated to plan and conduct civilian Common Security and Defence Policy (CSDP) missions under the political control and strategic direction of the Political and Security Committee (PSC).

⁶⁶ The Commission can entrust budget implementation tasks to entities and persons that guarantee a level of protection of the financial interests of the EU equivalent to that required by the Financial Regulations with regard to the so called "pillars" i.e. internal control system, accounting system, independent external audit and rules and procedures for providing financing from EU funds through grants, procurement and financial instruments. For persons entrusted with the implementation of specific actions in the CFSP, these conditions shall be satisfied no later than six months after the start of their mandate (Art. 60 (2) last sub-paragraph of the Financial Regulation).

⁶⁷ Source: FPI AAR 2013.

⁶⁸ CSDP missions represent €303 million (source: 2013 AAR). Currently civilian missions are present in Kosovo (EULEX, €10 million); Afghanistan (EUPOL, €8); Georgia (EUMM, €27); Iraq (EUJUST Lex, €15); Horn of Africa and West Indian Ocean (EUCAP Nestor, €12 million and EUCAP Sahel Niger, €7 million); Lybia (EUBAM, €7 million); Democratic Republic of Congo and Palestine (combines €25 million).

⁶⁹ Total budget €24 million in 2013 (Source: 2013 AAR).

The €243 million devoted to IfS⁷⁰ complement the actions of DG DEVCO and DG ECHO in countries facing a crisis or an emerging crisis by financing urgent short-term actions. IfS actions consist mainly of contracts implemented via the direct management mode through acts of subdelegation to 54 EU Delegations (EUDs)⁷¹ where DG DEVCO staff performs the financial management under an SLA signed between FPI and DG DEVCO, applying the DEVCO PRAG⁷² rules.

Audit Objectives

The objective of this comprehensive engagement was to assess the adequacy and effectiveness of FPI's control strategy.

The specific objectives included an assessment of:

- Compliance with the control strategy defined in FPI including the implementation of the "Guidelines on monitoring missions by the Commission to CFSP missions";
- Effectiveness of the controls and anti-fraud measures in place for CFSP and IfS operations managed through EU missions, EUDs and EUSRs to provide reasonable assurance on the legality and regularity of underlying transactions;
- Timeliness and adequacy of corrective measures taken by FPI; and
- Compliance with the SLA with DEVCO with regard to internal controls.

Audit Scope

The audit focused on the control strategy over CFSP and IfS operations implemented by EUSRs and CSDP missions, and EU Delegations respectively.

The audit covered:

- The design and implementation of the strategy put in place by FPI to control the CFSP and IfS instruments.
- The effectiveness of the controls underpinning the assurance building process related to CFSP and IfS (in particular ex-post checks, external audits, project monitoring, recoveries and reporting by EUDs, EUSRs, CSDP missions).
- The anti-fraud strategy put in place by FPI in the area of CFSP and IfS;
- The calculation and disclosure of the residual error rate in the 2013 AAR.

The audit did not cover the following due to the low risk involved:

- Ex-ante controls performed by FPI.3 on each financing agreement with EUSRs/missions (with verification by FPI.1) or regularly performed by FPI.2 on each act of subdelegation to the EUDs;

⁷⁰ Budgeted commitments in 2013.

⁷¹ Ongoing contracts as of 31 December 2013, source: CRIS.

⁷² <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:0013:0046:en:PDF>

- Prior approval by FPI of procedures related to CFSP budget implementation (procurement > €20,000 and grants > €100,000);
- Direct management of CFSP and IfS budget at HQ.

The fieldwork entailed a review of files and interviews at FPI HQ in Brussels and in four sampled entities - EULEX Kosovo, EUMM Georgia, EUSR Kosovo, EUD in Georgia for which mission reports have been already sent and validated.

There were no observations/reservations in the AAR that relate to the area/process audited.

The fieldwork was finalised on 23 April 2014. All observations and recommendations relate to the situation as of that date.

Strengths

The auditors acknowledge FPI's efforts to:

- improve the CFSP control strategy, in particular the current reflection on how to supervise the CSDP missions together with the CPCC through a shared resource centre;
- define an ex-post control methodology⁷³ to rank missions, delegations or projects to be tested ex post, in view of determining the detected and residual error rate for each ABB activity.

Major Audit Findings

The IAS has identified the following three very important issues:

Anti-fraud strategy for CSDP missions/EUSRs (report finding N° 1)

To date, FPI has not developed and implemented an anti-fraud strategy for CSDP missions/EUSRs. Individual CSDP missions/EUSRs have taken ad-hoc actions in areas such as developing a whistleblowing procedure, policy on declaration of conflicts of interest or guidelines on gifts and hospitality but these initiatives have not been coordinated or agreed with FPI. In addition, CSDP missions/EUSRs do not have access to a database to identify or alert others of potential fraud cases (red flags).

Assurance from the current system of controls (report finding N° 2)

The current system of controls has weaknesses caused, inter alia, by a lack of centralised guidance and deficiencies in the design of some controls (mainly the effectiveness of monitoring missions and ex-post controls for CSDP missions).

Calculation of the residual error rate for CFSP and IfS (report finding N° 3)

Although the activities of CSDP missions/EUSRs stretch over a number of years with a control environment that is stable, FPI uses an annual rather than a multi-annual

⁷³ Planning methodology for ex post controls and external audits- Version 2013.

approach for the calculation of the detected and residual error rate. In addition, the audit revealed that the calculation of the error rate is based on the total population of payments instead of the payments actually audited.

Recommendations

To address these issues, the IAS formulated recommendations which can be summarised as follows:

FPI should

- develop and implement a strategy for fraud prevention and detection in CSDP missions/EUSRs and ensure that staff implementing CFSP budget are regularly trained on anti-fraud issues and ethics. FPI should also ensure that CSDP missions/EUSRs have access to an appropriate anti-fraud database.
- provide effective and centralised guidance to missions and give consideration to creating a standard package of tools for missions from their very start in all major areas of activities. FPI should also re-assess its control strategy by improving its effectiveness during the implementation phase to minimise the amount of ineligible expenditure identified by ex-post controls and review its audit strategy of mandates. Finally, FPI should better document the decision-making process for recoveries.

FPI only partially accepted this recommendation and rejected the part on better documenting the decision-making process for recoveries. FPI considered that they had taken several initiatives to improve this. The IAS' audit, however, revealed that despite these initiatives weaknesses remained.

- Apply, in line with DG BUDG's AAR Standing Instructions, a multi-annual approach for the calculation of the error rate for activities that are multi-annual in nature based on payments actually audited, and take steps to implement an alternative assessment pattern to complement the current methodology for the provision of the assurance.

The audited service has established an action plan which the IAS considers satisfactory to address the accepted recommendations.

8. IT AUDITS

8.1. Audit on management of local IT in DG AGRI

Background

The mission of the Directorate-General for Agriculture and Rural Development ("DG AGRI") is to promote the sustainable development of Europe's agriculture and to ensure the well-being of its rural areas through the implementation of the Common Agricultural Policy (CAP). For the achievement of the CAP's strategic objectives, DG AGRI relies heavily on IT systems. The main ones support Agricultural market and Direct Payment management (ISAMM), Rural development (RDIS and RDIS II), Financial management

(AGREX, P-STO) and Audit management (CATS/COMBO). Other systems support the quality policy (e-Ambrosia), the reporting cluster (RICA, AGRIVIEW) and the legislative domain (APA, Ange Bleu).

Most of the DG AGRI systems are managed by the IT unit but some systems/ projects are also managed outside the IT unit.

The role of the IT unit in DG AGRI is to provide a high quality and secure Information and Communication Technology environment, to deliver and maintain up-to-date information and communication systems and to provide services in support of the DG AGRI activities.

According to DG AGRI's Management Plan, the Commitment appropriations for IT investments in 2014 reach €7.8 million, exclusively financed by the operational budget.

Audit Objectives

The overall objective of the audit was to assess the internal control system put in place by DG AGRI to ensure an adequate and effective management of its local IT activities.

Audit Scope

The audit focused in particular on the following areas:

- IT governance (including IT strategy and IT risk management),
- IT portfolio and project management (governance and methodology),
- IT operations (administration of information systems),
- physical and logical security arrangements.

There are no observations/reservations in the AAR that relate to the area/process audited.

The fieldwork was finalised in September 2014. All observations and recommendations relate to the situation as of that date.

Strengths

The IAS identified the following strengths:

- Very competent staff strongly committed to deliver high quality IT services to internal and external end-users;
- Constructive collaboration between business owners and the IT Unit;
- Co-operation with other DGs sharing the development of common IT systems (like SFC), in line with the rationalisation policy of the Commission.
- Establishment of a Common Architecture Team (AGRICAT) in DG AGRI's IT Unit (R3) to offer support for the development of all IT projects of AGRI R3 and to ensure project quality management.

Major Audit Findings

The auditors have identified the following two very important issues:

IT governance (report finding N° 1)

The governance framework in place in DG AGRI, the functioning of the different bodies and the respective roles and responsibilities are not clearly defined. In this respect, the steering function of the IT Steering Committee (ITSC) is currently limited to the endorsement of the IT Master Plan (for which it meets once a year). The committee does not receive regular information on IT issues and IT activities, hence limiting the possibility to adequately oversee the DG's IT activities and to take informed decisions on DG AGRI IT priorities and investments. At the operational level, information system/project steering committees do not meet frequently enough to perform their supervisory functions. In addition, the roles and responsibilities of key actors involved in project management are not consistently fulfilled.

IT strategy (report finding N° 2)

DG AGRI did not endorse a global IT strategy document describing in a medium- to long-term perspective how its core IT activities⁷⁴ align with the business strategy for the policies under its responsibility. In addition, there is no formal assessment of the long-term financial and human resources required by IT to support achievement of the business objectives.

Recommendations

To address these issues, the IAS formulated recommendations which can be summarised as follows:

IT governance

The DG should enhance the current governance set-up by ensuring that the roles of the Steering Committees (at DG, system and project level) are clearly defined and that they receive adequate information to effectively exercise their decisional, monitoring and supervision responsibilities.

IT strategy

DG AGRI should define and endorse a formal long-term IT strategy covering all IT-related activities supporting business goals, and translate it into a more operational medium and short-term IT strategy. This process should be complemented by a regular monitoring by the ITSC of the IT strategy alignment with the business objectives and of the adequacy of IT-related investments.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendations.

⁷⁴ IT core activities encompass IT systems, IT projects, IT services and IT infrastructure.

8.2. Audit on IT governance in DG BUDG

Background

When executing its tasks, DG Budget heavily relies on IT systems. In this respect, the Director-General of DG Budget is the System Owner of the *Central Financial Information Systems (ISs)*, which are largely developed and maintained by DG Budget. The main ones are *ABAC*⁷⁵ (for the registration of the budgetary execution and subsequent accounting), *Badgebud* (for the budgetary preparation) and *RAD*⁷⁶ (for the follow-up to the annual discharge).

To get best value from IT and to ensure that it supports adequately the achievement of the business strategic goals, an entity has to implement an effective IT governance as a key enabler of successful strategic alignment between business and IT, value delivery, risk management, resource and performance management. To this end, the entity has to define governing and operational structures with clear roles and responsibilities, effective decision-making processes and communication and reporting lines within and between business and IT.

Successful IT governance ensures an effective and efficient use of IT in terms of satisfying business needs, timely delivery of high-quality IT solutions and services.

DG Budget's IT Governance is based on different roles (System Ownership held by the Director-General, Business and Data Ownership held by the Commission Accounting Officer for ABAC and RAD and by the Director A for Badgebud) and different governing bodies (IT Steering Committee (ITSC), Enterprise Architecture Board (EAB) and ABAC Programme Management Meeting (PMM)).

At the operational level, the IT-related activities are spread over four different units (O3, D5, R3 and R4) under the responsibility of three senior managers (respectively the Accounting officer, the Director for the Central Financial Service and the Resource Director).

Audit Objectives and scope

The overall objective of the audit was to assess whether IT Governance in DG Budget ensures optimal alignment between business and IT, sound management of resources and effective IT solutions.

The audit focused on DG Budget's current framework to govern and oversee its IT activities. In particular, it looked into the design and implementation of processes and organizational structures in place to ensure that IT adequately supports the DG's strategies and objectives.

⁷⁵ ABAC (Accrual Based Accounting) is a transversal, transactional information system allowing for the execution and monitoring of all budgetary and accounting operations by the Commission, an Agency or Institution. ABAC includes a comprehensive set of features to ensure compliance with the Financial Regulation and the Rules of Application.

⁷⁶ RAD supports the tracking of the recommendations and observations formulated by external parties (Court of Auditors, Budgetary Authority) in relation to the discharge process.

There were no observations/reservations in the AAR that relate to the area/process audited.

The fieldwork was finalised on 31 October 2014. All observations and recommendations relate to the situation as of that date.

Strengths

The IAS recognises the on-going efforts made by DG Budget to improve the IT value delivery. In particular, the IAS noted the following elements:

- DG Budget has defined a multi-layer governance structure encompassing the strategic (IT Steering Committee) and the tactical/operational (EAB and PMM) levels;
- It has a good track record of availability of the financial systems, reliability of accounts, compliance with legal obligations and general user satisfaction (within DG Budget).
- A monitoring and reporting system exists, which could potentially become an effective management tool to drive continuous improvement.
- Staff working in the IT units is competent and motivated.

Major Audit Findings

The IAS has identified the following three very important issues:

IT governance organisation structure and key roles (report finding N° 1)

DG Budget has a complex IT governance structure with different bodies working at different levels. Roles and responsibilities related to its IT governance are not always clearly defined or consistently/fully implemented. In particular, the roles and responsibilities of key actors are not consistently fulfilled. In addition, the steering function of the ITSC is currently limited endorsing the IT Master Plan.

IT organisation (report finding N° 2)

The current organisation allocating the IT-related activities to four units under the responsibility of three different senior managers results in overly complex decision-making and management processes (possibly resulting in a lack of clear leadership and accountability), improper separation of activities and ineffective communication between key actors.

Priority setting and planning of IT activities (report finding N° 3)

DG Budget's IT planning appears over-ambitious in so far as it exceeds the available resources (especially for some expert profiles), which in turn makes it difficult to efficiently prioritise and schedule activities. In addition, daily operations very often consume the resources which were originally planned for project management related activities. This results in recurrent delays and postponing of deliverables, in particular in the projects belonging to the Review of the ABAC Architecture Programme.

Recommendations

To address these issues, the IAS formulated recommendations which can be summarised as follows:

IT Governance organisation structure and key roles

DG Budget should enhance the current IT Governance set-up by revising the configuration, composition and mandate of the governing bodies and ensuring their effective functioning. It should also increase the frequency of the ITSC meetings and clarify the roles of System Owner, Business Owner and Data Owner for the respective information systems.

IT organisation

DG Budget should reorganise its IT capacity in homogeneous areas and consolidate the IT-related tasks based on an inventory of the IT-related activities currently performed in the DG and the available competencies. In particular, it should separate IT supply (*maître d'oeuvre*) and IT demand (*maître d'ouvrage*) related tasks, and regulate the relationship between those two components well, e.g. by formal service level agreements (SLAs).

Priority setting and planning of IT activities

DG Budget should implement a more realistic and, hence, achievable planning of its IT activities and projects, assigning clear responsibilities adequately in order to deliver as planned, timely and within the budget. When planning its IT activities, the DG should therefore take into consideration available resources and objective constraints so to avoid unrealistic expectations and very likely failures/delays. In addition, DG Budget should ensure that business requests are timely communicated to the IT function so that it can plan its activities more accurately.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendations.

8.3. Audit on the management of logical access to systems (ECAS/LDAP/windows) in DG DIGIT
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Background

Identity and Access Management (IAM) is a set of policies, processes and technologies for managing the life cycle of digital identities and regulating the access to information assets⁷⁷. One of the key aspects of the IAM is the authentication mechanism, which allows confirming the identity of the users accessing information systems and data stored therein, and hence contributes to strengthening the control environment and to reducing information security risks.

⁷⁷ Information assets refer to information systems and the data treated therein.

ECAS (European Commission Authentication Service) is the primary authentication system used in the European Commission. It is a single repository of the credentials (login, password) which serves around 1.3 million users (internal and external) accessing corporate and local IT systems that support administrative, financial and policy-related activities.

ECAS is used by a growing number of applications in different DGs and it is promoted by DG DIGIT as the most secure and preferred authentication mechanism to access the EC information systems.

In 2013, DG DIGIT launched a major project (called EXODUS) for the upgrading of the ECAS IT infrastructure and the enhancement of ECAS security.

Audit Objectives

The overall objective of the audit was to assess whether the control system put in place by DG DIGIT ensures that the ECAS authentication service adequately supports the needs for a secure access to the Commission's information systems.

The audit focused on the following main areas:

- Governance structure;
- Security management;
- Service management;
- Management of the EXODUS project.

Audit Scope

The present audit covered the management of the ECAS system and in particular the activities performed by unit A4 (former 01), A3 and C4 (former C3). During the audit, the IAS also contacted DG HR.DS to understand its role in the context of the security-related activities as well as a number of ECAS clients.

There were no observations and reservations in the Annual Activity Report (AAR) that relate to the area/process audited.

The fieldwork was finalised on 12/06/2014. All observations and recommendations relate to the situation as of that date.

Strengths

The audit identified the following strengths:

- A well-established organisation, with staff committed to deliver high quality services to internal or external end users;

- A very competent development team, with a thorough understanding of IAM and authentication concepts and of the underpinning technologies;
- A well conceptualised, robust and versatile system to ensure a long term use in the changing EC environment;
- Good cooperation with DGs using ECAS services and a high level of users' satisfaction;
- Well documented instructions for systems administrators that are easily available to potential users of ECAS.

Major Audit Findings

The IAS has identified the following four very important issues:

Vision and strategy for Identity and Access Management (IAM) (report finding N° 1)

The vision for the IAM framework has not been properly updated since 2004 to reflect the current and future business needs for the IAM. In addition, DG DIGIT has not defined a proper long-term strategy to achieve this vision.

Security requirements for ECAS (report finding N° 4) and Requirements management and planning of the Exodus project (report finding N° 7)

There is no proper security plan for ECAS. In addition, the requirements identified to improve its security have not been implemented yet and there is currently no plan/roadmap defining the priorities, timelines and resources required for their implementation (as part of Phase 2 of the Exodus project).

ECAS dependency on AD⁷⁸, CED⁷⁹ and CUD⁸⁰ (report finding N° 5)

In the current setup, ECAS security depends, among other elements, on AD, CED and CUD services. However, the risks related to existing dependencies are not fully addressed.

Recommendations

⁷⁸ Windows Active Directory (AD) is a directory service that authenticates and authorizes all EC users (around 30.000 in total) and computers in EC Windows domain networks, assigning and enforcing security policies for all computers and installing or updating software. AD also manages privileges to access MS Outlook and shared resources like network printers and network drives. It contains the credentials of all Windows network domain users.

⁷⁹ The Commission Enterprise Directory (CED) is a repository of the credentials (login, password) of around 50.000 internal EC users to access less critical legacy applications and Europa web site, and to grant Internet access to EC users. It is an LDAP directory. LDAP (Lightweight Directory Access Protocol) is an application protocol for accessing and maintaining distributed directory information services over an Internet Protocol (IP) network and, for this reason, CED is sometimes referred as CED/LDAP.

⁸⁰ The Central User Directory (CUD) is an Oracle database in which user identities are stored and access rights are managed. It is a sort of meta-directory of users at the Commission and is a central part of the IAM infrastructure. It is populated with user information from COMREF database and serves as an authoritative source of user information for main authentication mechanisms of the Commissions (e.g. ECAS, Active Directory and CED).

To address these issues, the IAS formulated recommendations which can be summarised as follows:

Vision and strategy for Identity and Access Management (IAM)

DG DIGIT should update the vision for the IAM and ensure that it is adequately translated into a long-term strategy and yearly plans with clear objectives and deliverables.

Security requirements for ECAS and Requirements management and planning of the Exodus project

DG DIGIT should ensure that the security requirements are defined involving all the stakeholders and documented in a proper security plan. A clear roadmap with resources, deadlines and deliverables should be defined in the context of Phase 2 of the Exodus project.

ECAS dependency on AD, CED and CUD

DG DIGIT should identify and assess unnecessary dependencies from other components and implement appropriate security measures to reduce the likelihood of security breaches and interruption of service.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendations.

8.4. Audit on the management of the IT projects in DG EAC (E4ALink and EVE)
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Background

In the new Multiannual Financial framework for the period 2014-2020, the most relevant programme will be "Erasmus+". It will bring together several activities currently covered by separate programmes, for a total budget of €19 billion for the 2014-2020 period.

DG EAC is paying special attention to the planning of IT activities supporting the new generation of programmes, in particular the provision of IT applications to support the management of the Erasmus+ programme and to facilitate the collection of accurate, complete and consistent data on the programme's execution.

The development activities are mainly outsourced to external contractors (intra-muros) who are supervised by DG EAC's staff.

The adequate management of IT projects is a key success factor to ensure that IT systems meet the users' expectations and are delivered on time and within the budget allocated. DG EAC has developed its own project management methodology and has set up a governance and operational structure to ensure an effective and efficient development of IT systems.

Audit Objectives and Scope

The overall objective of the audit was to assess the adequacy of the IT project management in DG EAC in terms of respect of the deadlines fixed to release the systems into production, respect of the budget allocated to the projects and quality of the deliverables.

In particular, the audit focused on IT project governance, IT project/programme management (including the supervision of the IT software development related activities) and IT security arrangements (in order to ensure that the security elements are correctly and timely considered in the IT system development phase).

During the fieldwork, the IAS looked at three IT systems currently under development, namely *E+link* (the future system for grant management for the 2014-2020 period), *e-Forms* and *EVE*.

There were no observations/reservations in the AAR that relate to the area/process audited.

The fieldwork was finalised on 02/12/2013. All observations and recommendations relate to the situation as of that date.

Strengths

The audit identified the following strengths:

- well-established IT department, with competent staff strongly committed to deliver high quality services to the end users;
- Definition of DG EAC's project management methodology;
- Effective IT governance framework and regular involvement of senior management in the discussion of issues related to IT core organisation and IT projects;
- Establishment of the Project Support Office in charge of Analysis/Business Support, Architecture, Quality Assurance, Communications, Project Support and Testing to support and ensure coherence of the IT project management in DG EAC;
- Physical security arrangements in line with the business requirements.

Major Audit Findings

The IAS has identified the following two very important issues:

Project management framework (report finding N° 1)

DG EAC project management methodology significantly simplifies the different phases of the project management life cycle. Some key artefacts, decision logs and checklists have not been prepared, resulting in fewer key controls being in place.

In addition, DG EAC has not formally defined a programme management process to coordinate activities and the interdependence of projects contributing to the same programme outcome.

Information system (logical) security (report finding N° 4)

IT security is embedded in the IT project management methodology over the different phases of the project life cycle. However, DG EAC has neither conducted a formal business impact assessment nor finalised a security plan for its IT systems. In addition, the LISO and DPC are not systematically involved in the development of IT systems.

Recommendations

To address these issues, the IAS formulated recommendations which can be summarised as follows:

Project management framework

The DG should strengthen the control mechanisms in place by ensuring that the current and future projects process, artefacts and workflows are aligned to the reference framework PM² and by implementing a formal structure for the programme and portfolio management.

IT logical security

The DG should define and implement security plans based on the results of the business impact and risk assessments and the resulting criticality of the IT systems. Both business side and security specialists should be involved in these exercises.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendations.

8.5. Joint IAS/ IAC audit on the management of local IT in DG MARE

Background

The role of IT in DG MARE is to set up and maintain powerful and reliable information systems capable of satisfying DG MARE's business process and operational objectives. Responsibilities in IT are mainly allocated to its IT sector F3.002 (in charge of management of local IT infrastructure and of IFDM-related projects) and Unit D4 (responsible for the European integrated environment of fisheries data management). Some operational units also manage their own IT projects without the involvement of the IT sector.

The budget for IT investments increased significantly from 2013 to 2014, rising from EUR 2.5 million to EUR 8.8 million. The additional budget received in 2014 has been allocated to systems supporting both the Fisheries and the Maritime policies.

Audit Objectives

The overall objective of the audit was to assess the internal control system put in place by DG MARE to ensure an adequate and effective management of its local IT activities.

Audit Scope

The audit focused in particular on the following areas:

- IT governance (including IT strategy and IT risk management),
- IT project management,
- IT operation (administration of information systems),
- physical and logical security arrangements.

There were no observations/reservations in the AAR that relate to the area/process audited.

The fieldwork was finalised in August 2014. All observations and recommendations relate to the situation as of that date.

Strengths

The IAS identified the following strengths:

- Very competent staff strongly committed to delivering high quality services to internal and external end-users;
- Constructive collaboration between IFDM business owners and the IT team;
- Set-up (by the IT sector) of an agile project management methodology aligned with the EC framework;
- Enhanced co-operation with other DGs sharing the development of common IT systems, in line with the rationalisation policy of the Commission;
- Establishment of a dedicated business unit to improve the data quality management in DG MARE (IFDM programme);
- Enhanced cooperation with Member States (MS) and other stakeholders concerned to mutually share and exchange information through CISE and the IFDM programme.

Major Audit Findings

The auditors have identified the following five very important issues:

IT strategy/governance (report finding N° 1 and 2)

DG MARE did not endorse a global IT strategy document describing in a long-term perspective how its core IT activities⁸¹ align with the business strategy for the policies under its responsibility. In addition, there is no formalised exercise to identify and

⁸¹ IT core activities encompass IT systems, IT projects, IT services and IT infrastructure.

prioritise business needs and related IT projects for all the policies in DG MARE's portfolio and to allocate to them the available resources.

Concerning the governance framework in place at DG MARE, the functioning of the different bodies, the relations and reporting lines among them and the respective roles and responsibilities should be clarified. In this respect, the IT Steering Committee (ITSC) currently performs more than a strategic and steering role as it is regularly involved in detailed management/operational activities (thus limiting the time available for overseeing the whole IT activity in DG MARE). At a more operational level, the contribution of the business to the discussion on strategic orientations and technical issues related to the IFDM programme⁸² is not always effective and the relations with other steering committees are not clear. Concerning the programme/project level, there is no Programme Steering Committee for CISE and IFDM and Project Steering Committees have not been formally defined for all the projects.

IT operations (report finding N° 4)

DG MARE's procedure for change management only covers change requests for the IFDM-related systems. In addition, its current procedure requires further improvements to adequately cover emergency changes, software code review and formal acceptance of deliverables produced by external developers.

IT project management (report finding N° 6 and 7)

Concerning the portfolio management process, there is no central function at business and IT level with a global view on the main business processes and related information systems for the two policies managed by the DG. Furthermore, DG MARE has not defined criteria to categorise IT projects in order to better prioritise them, adapt management practices and assign appropriate competences according to their typology.

There is no formalised IT programmes management framework. In terms of IT project management, key staff is playing several different roles implying simultaneous tasks and tight deadlines, which results in limited quality controls and service management. In addition, there is no global quality management system in place.

Recommendations

To address these issues, the IAS formulated recommendations which can be summarised as follows:

IT strategy/governance (Observations 1 and 2)

DG MARE should define and endorse a formal IT strategy covering, for the long-term, all the IT-related activities supporting the business goals. This process should be completed by a formal exercise to identify, assess and prioritise the IT-related needs for all the policies under DG MARE's responsibilities and to allocate the available resources to them.

⁸² The business contribution to the IT decision-making process takes place in the Thematic Groups (TG), which represent the core business areas of the DG. The IFDM programme is under the responsibility of the TG5.

The DG should enhance the current governance set-up by reviewing the functioning of the existing governing bodies (ITSC, Thematic groups) and establishing specific steering committees for programmes and projects to oversee their operational aspects. Roles, responsibilities and reporting modalities should be clearly defined and implemented for all the governing bodies.

IT operations (Observation 4)

DG MARE should improve its change management framework in order to ensure that common procedures cover all the requests for change for all the IT domains (systems, applications, projects, documentation) and that it assesses and prioritises the change requests consistently.

IT project management (Observations 6 and 7)

DG MARE should enhance its portfolio and programme management by defining an adequate framework encompassing organisation, roles and responsibilities, processes and tools both from the IT and business sides.

DG MARE should improve the support given to the business and project managers, design and implement a quality management process and improve the service management function.

The audited service has established an action plan which the IAS considers satisfactory to address the recommendations.

8.6. IT risk assessment in ERCEA

Background

The European Research Council (ERC) is a flagship component of Horizon 2020 programme. Its mission is to encourage the research in Europe and to support investigator-driven frontier research across all fields.

To support the ERC in the achievement of its goal, ERCEA (ERC Executive Agency) provides attractive, long term grants to excellent investigators and their research teams.

The Agency work is supported by Information Systems serving its five business processes (Evaluation, Grants, Administration, Policy and Communication).

Currently, the IT unit manages 40 staff, out of which 11 intra-muros, and a total budget of EUR 3,815 million. With the move of some IT tasks to DG DIGIT (ITIC, management and hosting of main IT applications), the IT-related activities in the Agencies comprise now the management of two local data rooms, the development of three IT systems (Pecunia2, SEP and PANEL NOMINATION) and the IT project and portfolio management.

In line with its Strategic Audit Plan for 2015, the IAS has performed an in-depth IT risk assessment exercise to map the main risks the Agency is exposed to in the management of IT-related activities. The review covered five key processes (IT Governance, IT

Security, IT Project Management and IT Operations) and the activities performed by Unit D1 (IT Tools Development and Management) and Unit B1 (Process Management and Review).

This IT risk assessment exercise looked at the controls in place in terms of their reasonableness (whether they appear adequate for the risk they intend to mitigate and whether they are appropriately designed) but it did not test their effective implementation (which would be the scope of an audit engagement). Consequently, the results of the IT risk assessment represent the perception of the extent to which the processes reviewed are under control.

The result of this in-depth IT risk assessment will feed into the planning for IAS' future audit work programme, notably the strategic Audit Plan 2016-2018.

Overall conclusion of the IT risk assessment and ERCEA IT Risk Map

As a result of the IT risk assessment exercise, all reviewed processes have been evaluated according to the perceived risk (both inherent and residual risk) measured in terms of impact and vulnerability and positioned in the IT risk Map.

Overall, the IT-related processes reviewed appear to be under control. Consequently they have been placed in the orange zone of the risk map ("Assurance").

However, three sub-processes (IT Project Management, IT Project Development and Logical Security) have the highest residual risk and are close to the borderline between the orange and red zones of the risk map, which means that they may not be sufficiently well set up to mitigate the related risks.

In this respect, the IAS considers that ERCEA should pay special attention to the following areas for improvement:

Concerning IT project management and IT development, the Agency should implement the selected methodologies (PM2 and RUP@EC) consistently across the organisation and for all the projects, independently from the project manager. It should therefore define baseline artefacts (preferably, depending on the complexity of the project) and the quality function should monitor their implementation. In addition, the Agency should develop a monitoring systems based on specific KPIs covering both the project management and the development activities in order to ensure the quality of the deliverables.

In terms of logical security, the Agency should formally monitor the implementation of the security plans. In addition, it should proactively review the logs of users' activities (in particular those of the privileged users) and better manage the access rights of the service desk to the production environment of ERCEA's most critical application (ERC Evaluation).

9. MANAGEMENT LETTER

9.1. Management letter on common features of performance measurement systems

Introduction

In response to the Commission's move towards a new performance culture and greater focus on value for money, the IAS is carrying out a number of performance audits as part of its 2013-15 Strategic Audit Plan. In 2013 it addressed a number of key themes, including the adequacy of DGs' performance measurement systems under different management modes and how certain DGs manage their Human Resources⁸³. The audits looked at the performance measurement frameworks for a number of DGs and the extent to which they measure performance internally and whether they monitor and evaluate policy achievements, and also cover HR management related aspects (planning, allocation and monitoring).

A number of recurring issues emerged as a result of these audits, particularly as regards aspects of the annual planning and reporting cycles of the Management Plans (MPs) and Annual Activity Reports (AARs), but also as regards the management of human resources, in particular concerning the matching of organisation structures to workloads, priorities and staff reduction. Whilst specific audit findings and recommendations have been attributed to the DGs concerned, the IAS considers that there are a number of common issues which should be brought to the attention of the Central Services with a view to helping the Commission respond effectively to these challenges.

Objectives and Scope

The purpose of this management letter is to bring to the attention of the Central Services the common issues arising from the IAS's performance audits undertaken in 2013 in order that they can take stock and assess what action needs to be taken centrally. It is not intended to summarise all the issues raised during these audits or to provide an overview state of implementation of the specific recommendations made to the DGs concerned.

Detailed findings/Issues for consideration

Management planning and annual reporting cycle (Lead DGs: SG, BUDG)

Management Plans – Setting of objectives and indicators

The IAS's findings need to be seen in the context of the Commission's move towards a more performance based culture, which should be underpinned by appropriately adapted underlying accountability and reporting structures (MP and AAR). The IAS recognises the continuing efforts by the Central Services to further embed the principles of performance management into these structures through guidance and instructions. In this regard, the IAS identified a number of recurring issues which should be considered as

part of a package of measures to improve the measurement and reporting of performance.

As regards the setting of objectives and indicators in the Management Plans, our audits noted that in practice objectives are set at various levels, whether at the general level for the policy area concerned or at the specific level for operational ABB activities. However, the links between these are typically not well explained in the MP. Furthermore, they are not always clearly linked to the more strategic objectives of the EU2020 targets/flagship initiatives and clear objectives for the DG's own day-to-day activities which contribute to the achievement of specific objectives are often lacking.

In addition, the accompanying performance indicators do not generally meet the widely accepted RACER criteria and in some cases can be more numerous than needed and/or insufficiently targeted according to need. As regards measuring policy achievements, the IAS found a tendency to confuse results or impact indicators with output indicators. Targets and indicators, which can be used as measures of outputs are sometimes referred to as measures of impacts or results.

Furthermore, the IAS noted that typically there is no use of efficiency/economy indicators, either related to policy or internal activities.

Issue for consideration:

The MP should be a key part of a DG's' tool box for helping to shape, direct and ultimately assess whether day to day business activities are ensuring the delivery of specific objectives. More specifically, through improvements to the Standing Instructions for the MPs, DGs should:

- explain performance information (operational objectives, indicators and targets) for their day to day activities which contribute to the achievement of specific objectives;
- explain how indicators should be interpreted;
- ensure indicators at both policy level and those covering internal activities are RACER compliant and targets well defined;
- ensure that the number of indicators used is proportionate to reflect the relative importance of the activity to be reported;
- include more information in the MP on resource inputs for internal activities and relate these to outputs/results so as to develop meaningful efficiency indicators;
- where relevant, ensure that the appropriate information is set out in the MP on objectives, indicators and targets in relation to the 2007-2013 programming period in order to provide a basis for measuring and reporting in the AAR and ultimately in the TFEU Art. 318 report.

Reporting of performance information

The main vehicles for reporting performance information are the DG AARs and the TFEU Art 318 Evaluation Report. The AAR should of course be the mirror image of the MP and the IAS notes the continued refinement of the AAR methodology. Also, the commitment to address the criticism of the Art 318 Report by ECA and the Discharge Authority, in particular by linking it more closely to the Part 1 of the DGs' AARs. In addition, policy delivery is also reported through sectorial reports to stakeholders.

However, whilst there have been many improvements in the way the AARs are formulated, the tendency is to focus on reporting of outputs and financial implementation rather than on results and impacts. Furthermore, where outputs are reported, they are not typically linked to inputs and hence there is no measure of relative efficiency.

As regards reporting policy results and impacts, this clearly represents the major challenge for most DGs, particularly in the main spending policy areas and of course these may only be really known after a number of years. This also raises the question of how the results of evaluation work are reported in the AAR. To date, evaluation work is mainly reported through the TFEU Art 318 Report. The IAS found that although evaluation represents a key part of the overall package of performance information it was not always clearly presented in the AAR. It notes the Commission's intention to integrate the Art 318 Report into the SPP cycle by enhancing the AAR standing instructions and for the AARs to contain in future a more comprehensive analysis of how and to what extent EU spending has contributed to achieving policy objectives.

Issue for consideration:

Through improvements to the AAR standing instructions, DGs should;

- ensure that the AAR clearly reports on the objectives and indicators included in the MP;
- report on efficiency at policy and DG operational levels;
- ensure that their evaluation strategies and reporting thereof feed into the TFEU Art 318 Report on a timely basis;
- ensure that where they are obliged to report separately on performance information, for example in policy area or sectorial reports, this is consistent with the information reported in the AAR. Where appropriate there should be a common, family of DGs/services based approach to ensure consistency and comparability.

Internal performance measurement systems

The MP and AAR are the basic components of each DG's performance measurement framework. However, they are not the only elements involved. In practice, there are a range of other tools involved, for example unit management plans, reports to the management board etc. All these elements need to work together to ensure the clear and consistent reporting of information and the efficient and effective use of resources. However, aside from the MP and AAR, there is no real guidance to the DGs on how to develop an internal performance measurement framework.

The objectives set in the MP should be properly cascaded down to the Unit level as far as possible. The ideal vehicle for this is through Directorate/Unit level plans and corresponding reporting. However, the IAS found that the extent to which these are used varies in practice between and even within DGs. Furthermore, where they are used they also suffer from the problems noted above as regards the overall Management Plan, for example objectives not being clearly explained and indicators not RACER compliant.

Reporting to senior management on performance is also a key part of the internal performance measurement framework. However, these reports do not always cover all relevant activities. Also, the associated indicators are not always appropriate or adequately prioritised.

Issue for consideration:

Recognising that a comprehensive internal performance measurement framework includes more than the MP and AAR, there needs to be more specific/comprehensive guidance to DGs on how to develop this in practice. This should be in addition to the existing standing instructions for the MP/AAR.

Reliability of performance information reported by Member States

A recurring theme is the quality and reliability of performance information reported by the DGs, both concerning their own day-to-day activities and the policies and spending programmes under their responsibility. This is particularly (but not exclusively) the case in the Shared Management and Indirect Management areas where the reporting of key performance information depends on Member States and other actors responsible for implementing the budget. The IAS notes that DGs face persistent problems in being able to rely on this and also that what they receive in practice is often limited due to very strict legal obligations.

Issue for consideration:

DGs should be encouraged to strengthen controls/checks on the reliability of performance information, in particular where it is reported by Member States, including where appropriate, through ex-post audit strategies. In addition, the Commission generally should ensure that any new legislative proposals (including delegated and implementing acts) clearly oblige MS to report the performance information necessary in order to be able to fulfil its overall reporting obligations.

Human resource management (Lead DG: DG HR)

Human resource planning and monitoring

The identification of current and future HR needs is essential, particularly in view of the pressure to reduce staff numbers, but also in response to dealing with changes to the nature of the Commission's work and structural reorganisations. Human Resource plans at the DG level should act as the main vehicle for assessing quantitative and qualitative needs in relation to the current skills base and in turn outline any corrective measures, for example redeployment, recruitment, training, etc. The IAS audit found that although most DGs have prepared HR plans they are not as a rule sufficiently developed. DGs do

not have complete, reliable and up-to-date information on the needs, the existing HR, their allocation and the associated priorities. Some attempts have been made to simulate changes over a period of time, taking account of expected reductions, but these do not always take account of related workload assessments and/or skills surveys. In short, there is generally no common and comparable base to work to.

However, the IAS notes that in 2013 DG HR launched an HR planning initiative, using pilot DGs, aimed at introducing rolling resource plans covering three years, based on a gap analysis between DGs' current resources and future needs. The IAS understands that this approach is currently further developing, based on the experiences of the pilot exercises.

Issue for consideration:

The results of the current HR planning initiative should be used to help drive a wider package of HR initiatives in order to implement at the Commission level a coherent and joined-up response to dealing with the issue of staff reductions.

Aligning organisational structure to workload and priorities

Key to the effective HR management and also to the measurement of DGs' day-to-day business is a proper understanding of whether the organisational structure and allocation of resources is appropriately aligned to priorities and workload. In its audits, the IAS found that the information available in operational services on staff allocation (workload assessment, jobs/skills mapping, HR plan) is heterogeneous and that the systems, methods and tools used to gather related information vary considerably in practice and are often locally developed. Assertions made by some DGs as regards the allocation of HR being aligned with business priorities is not always supported by the necessary tools, methods information.

In some cases, significant work has been made on developing workload assessments to map human resources to activities and tasks, whilst in others such assessments were lacking or more limited and had not been extended to the full range of the DG's activities. The IAS considers such assessments to be essential for providing assurances on the efficient and effective allocation of resources. Furthermore, they can provide very useful information for further developing DGs' performance measurement systems, in particular in developing efficiency indicators for human resource inputs. However, whilst the DGs generally recognise the need for such assessment, the main obstacles cited include the time needed to undertake them, together with the lack of common definitions and underlying methodology.

Issue for consideration:

As part of a centrally led HR initiative (see point 2.1), workload assessments should be conducted across the DGs more generally and according to common definitions and methodology.

Inventories of skills and competencies

The IAS audits highlighted the issue of the degree to which DGs have visibility on the skill and competencies of their staff with a view to mapping these to the needs of their organisations. In this regard, the e-cv completion rate clearly varies between DGs, but it also became clear that the DGs have differing views on its practical usefulness, with some feeling that it is not sufficiently tailored to their particular circumstances. Also, there are doubts about the quality (reliability and completeness) of the information already contained in the database and the cost-effectiveness of its monitoring. The IAS notes that certain DGs are already working with DG HR to improve this. Others have launched or are planning to launch surveys to assess whether skills are matched to needs.

Issue for consideration:

Take-up rates for the e-CV and the quality of the underlying information contained need to be improved for it to be an effective HR management tool at the DG level.

10. FOLLOW-UP ENGAGEMENTS (SUMMARISED)

10.1. 2nd Follow-up audit on risk management – Multi DG (SG, DG BUDG, FPI)

Based on the results of the 2nd follow-up audit, the IAS assessed that all the recommendations addressed to the SG, DG BUDG and FPI that resulted from the audit on risk management and that remained open after the 1st follow-up have been adequately and effectively implemented. All the recommendations have been closed.

10.2. Follow-up audit on the AAR process in the Commission - Multi DG (SG, DG BUDG)

Based on the results of the first follow-up audit in 2014, the IAS assessed that two out of the four recommendations addressed to the SG and DG BUDG that resulted from the audit on the AAR process in the Commission have been adequately and effectively implemented. These recommendations have been closed.

For one important recommendation on "*Standing Instructions*", the IAS noted the progress made regarding the implementation of a new set of instructions and guidance and in terms of communication at the time of the first follow-up. However, the IAS considered this recommendation not to be fully implemented then.

One very important recommendation on "*Reporting on sound management*" was not followed-up during the first follow-up and remains open since the original target date for implementation was not reached at the time of the first follow-up.

In July 2015, the IAS finalised a second follow-up and found both remaining recommendations to be adequately and effectively implemented.

10.3. Follow-up audit on the charge-back process in the Commission - Multi DG (DG BUDG, DG DIGIT)
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DG BUDG

Based on the results of the follow-up audit, the IAS assessed that one out of the three recommendations addressed to DG BUDG that resulted from the audit on the charge-back process in the Commission has been adequately and effectively implemented. This recommendation has been closed.

For two very important recommendations, the IAS assessed that not all the planned actions have been implemented.

Recommendation No. 1 on governance of the charge-back process

In March 2014, the ABM Steering Group endorsed the ownership of the chargeback process as well as the guidance for the charge-back process between Commission Services. It also "expressed its support for the on-going work on the inter-institutional dimension of the Charge-back process". Pending the completion of the guidance for the charge-back process to other Institutions and bodies (see recommendation No. 2 below) which has to be endorsed by the ABM Steering Group, too, the IAS considers recommendation No. 1 not to be fully implemented yet. However, considering the progress made in the implementation of the recommendation on the "***Governance of the charge-back process***", the criticality of this recommendation has been downgraded from very important to important.

Recommendation N° 2 on central guidance and instructions:

DG BUDG established the framework of the process and published the guidance on the charge-back process within the Commission in March 2014. However, the guidance on the charge-back process for services delivered to other Institutions and bodies has not been published.

DG DIGIT

Based on the results of the follow-up audit, the IAS assessed that one out of the three recommendations addressed to DG DIGIT that resulted from the audit on the charge-back process in the Commission has been adequately and effectively implemented. This recommendation has been closed.

Concerning one very important addressed to DG DIGIT, the IAS assessed that not all the planned actions have been fully implemented.

In particular:

Recommendation N° 1 on identification of IT services to be charged-back:

Implementation was postponed to September 2015. This is due to the fact that the initial target to identify the baseline services delivered by Directorate C has been replaced by a more ambitious goal encompassing all DIGIT services. This project goes in parallel with the completion of the consolidated cost model for all the services expected for end of Q2 2015 as this will allow defining the criteria for the service to be charged back. DG

DIGIT expects the new consolidated cost model to be endorsed by the ABM Steering Group by September 2015.

10.4. 2nd Follow-up audit on compliance with payment deadlines - Multi DG (DG ECHO, DG DEVCO)

DG ECHO

Based on the results of the 2nd follow-up audit, the IAS assessed that one recommendation addressed to DG ECHO that resulted from the audit on compliance with payment deadlines and that remained open after the 1st follow-up has been adequately and effectively implemented. In total, six out of the seven recommendations have been closed after follow-up.

For one important recommendation on "*monitoring and reporting on the payment process cycle*", the IAS considered the measures implemented not effective and the recommendation not to be fully implemented.

DG DEVCO

Based on the results of the follow-up audit, the IAS assessed that four recommendations addressed to DG DEVCO that resulted from the audit on compliance with payment deadlines and that remained open after the 1st follow-up have been adequately and effectively implemented. In total, eight out of the nine recommendations have been closed after follow-up.

For one very important recommendation the IAS considered the measures implemented not effective and the recommendation not to be fully implemented:

Recommendation N° 1 on monitoring and reporting on the payment process:

The IAS observed that DG DEVCO has implemented some measures to enhance the monitoring and reporting system on the payment process. They include the CRIS contract reviews performed by an external contractor in 2013 and 2014, the analysis on payment delays made by Unit DEVCO.R1 and the monitoring of Delegations (using the information provided in the EAMR) and Headquarters. The IAS also takes note of the on-going project to develop harmonised monitoring tools amongst the Directorates (which should be finalised early 2015). These tools will enable DG DEVCO to have a view on the KPIs results at DG level, per directorate and per delegation. They will also enable the delegations to monitor more closely their performance.

10.5. Follow-up audit on the management and monitoring of staff allocation in the Commission services– Multi DG (SG, DG BUDG, DG HR, DG AGRI, DG COMP, DG DGT, DG RTD)

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG COMP, DG DGT and DG RTD that resulted from the audit on the management and monitoring of staff allocation in the Commission

services have been adequately and effectively implemented. All these recommendations have been closed.

One recommendation addressed to DG AGRI that resulted from the audit on the management and monitoring of staff allocation in the Commission services has been adequately and effectively implemented. This recommendation has been closed.

Concerning the other two recommendations addressed to DG AGRI, the deadline for recommendation N° 1 on "*Mapping of Human Resources with activities and associated priorities*" has been postponed to 31 December 2014, while recommendation N° 2 on "*Workload assessment*" is due in March 2015. Based on the results of the follow-up, the IAS downgraded recommendation N° 1 from very important to important as DG AGRI has implemented most of the agreed actions and is now finalising the process to map HR with activities and priorities.

Of the two recommendations that have been jointly addressed to the SG, DG BUDG and DG HR, the IAS assessed that one recommendation has been adequately and effectively implemented. This recommendation is closed.

Considering the progress made in the implementation of the recommendation on "*Reporting and accountability by Commission Services on the effective use of posts*", the criticality of this recommendation has been downgraded from very important to important.

10.6. 1st and 2nd Follow-up audit on the Overview Report on Executive Agencies – Multi DG (SG, DG BUDG, DG DIGIT, DG HR)

Based on the results of the follow-up audits performed in 2014, the IAS assessed that all the recommendations addressed to SG, DG BUDG, DG DIGIT and DG HR that resulted from the audit on the Overview Report on Executive Agencies have been adequately and effectively implemented. All the recommendations have been closed.

10.7. Follow-up audit on the Commission-wide audit on strategy and coordination of statistical data production, development and dissemination – Multi DG (DG AGRI, DG ESTAT, DG JRC, DG MARE, DG RTD)
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Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG AGRI and DG JRC, seven out of the ten recommendations addressed to DG ESTAT, four out of the five recommendations addressed to DG MARE and two out of the three recommendations addressed to DG RTD that resulted from the Commission-wide audit on strategy and coordination of statistical data production, development and dissemination have been adequately and effectively implemented. All these recommendations have been closed.

One important recommendation on "*Access to confidential data for scientific purposes*" addressed to DG ESTAT has been assessed as partially implemented. Nevertheless,

based on the actions already taken that demonstrate an advanced state of implementation, the IAS decided to close this recommendation.

One very important recommendation on "*roles and responsibilities*" and one important recommendation on "*quality checks*" addressed to DG ESTAT were not reported implemented by this DG and remain open. One important recommendation on "*roles and responsibilities*" addressed to DG MARE was not reported implemented by this DG and remains open.

For one important recommendation on "*quality*" addressed to DG RTD, the IAS considered the recommendation as not implemented and remains open.

10.8. Follow-up audit of the internal control system for managing the Instrument for Pre-accession Assistance for Rural Development (IPARD) in DG AGRI

Based on the results of the follow-up audit, the IAS assessed that two out of the three recommendations addressed to DG AGRI that resulted from the audit of the internal control system for managing the IPARD have been adequately and effectively implemented. These recommendations have been closed.

For the remaining very important recommendation the IAS acknowledged the actions already implemented by DG AGRI and considered that this recommendation can be closed as well.

10.9. Follow-up audit on the control strategy implementation (Pillar 1 and 2) in DG AGRI

Based on the results of the follow-up audit, the IAS assessed that one out of the four recommendations addressed to DG AGRI that resulted from the audit on the control strategy implementation in DG AGRI has been adequately and effectively implemented. This recommendation has been closed.

Concerning the very important recommendations N° 1 on "*Detective Measures*" and N° 2 on "*Corrective Measures*", the IAS noted significant progress in implementation of the action plans. Therefore, those recommendations have been downgraded from very important to important.

One important recommendation on fraud prevention and detection was excluded from the scope of the follow-up audit as it is being followed up through another multi-DG IAS audit on the adequacy and effective implementation of DG anti-fraud strategies.

10.10. 1st and 2nd Follow-up audit on the residual error rate calculations (Pillar 1 & 2) in DG AGRI

Based on the results of the follow-up audits performed in 2014, the IAS assessed that the four recommendations addressed to DG AGRI following the limited review on the

residual error rate calculations remain open. The criticality of some of the open recommendations has been downgraded.

In particular:

Recommendation N° 1 on the "Reliability of Member States Control Statistics":

The IAS assessed that the relevant parts of the recommendation dealing with the 2012 AAR, have been adequately implemented. Considerable progress has been made in improving the methodology for checking Member States control statistics, including the development of internal procedures and guidance to staff. Some more long ranging actions are still in progress as it is still too early to completely assess their implementation. These concern mainly the new tasks of the Certifying Body to provide an opinion on the legality and regularity of underlying transactions and DG AGRI's related audit work. One key action, concerning the development of guidance to Member States on sampling, had not started. Therefore, this recommendation remained open. In the light of the progress made, the IAS decided to downgrade the status of the issue from critical to very important.

Recommendation N° 4 on the "AAR presentation":

The IAS noted that considerable progress has been made in better explaining the basis for relying on MS control statistics and the overall presentation of key figures. The IAS also noted that DG AGRI is planning to provide in its AAR 2014 more information on the *aggregate* (Fund or ABB level) multi-annual impact of financial corrections and/or recoveries on the amount at risk. However, at the date of the follow-up, the details on the approach and presentation were to be defined. The IAS also noted that DG AGRI does not plan to develop a multi-annual or cumulative system for relating error rates or amounts at risk with corrections at the *Paying Agency level*.

The IAS considered that for assurance purposes, the approach used for the AAR 2013 should continue to apply. In addition, DG AGRI should explain the inherent limitations of comparing amounts at risk and corrections, for example by referring to the time lag between the identification of errors and subsequent corrections, the lack of data on recoveries and the limited DG AGRI audit coverage at the level of the Paying Agency. It should then illustrate the corrective capacity of financial corrections over time by using an example based on rolling averages.

Amounts reported in note 6 of the EU accounts and in the AAR 2013 concerning financial corrections and in note 6 concerning recoveries, include various reductions and sanctions charged to the MS (mainly related to cross compliance) that do not necessarily correspond to the type of legality and regularity errors that are reported on in DG AGRI's error rate/amount at risk. The recoveries reported in the AAR do not include these amounts and therefore do not correspond to the amounts reported in note 6. DG AGRI should assess whether these amounts should be included in its assessment of the corresponding corrective capacity and disclose any differences with note 6. Therefore, the IAS considered that the implementation of this very important recommendation remains in progress, pending the outcome of the AAR 2014.

It is important to address the relevant remaining issues in the AAR 2014 and ensure that sufficient importance is dedicated to the actions to strengthen the reliability of the MS control statistics in the long run.

Considering the progress made in the implementation of the recommendations on the "*Calculation of the RER*" and "*Reservations*", the criticality of those recommendations has been downgraded from very important to important.

10.11. Follow-up audit on fraud prevention and detection in DG AGRI

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG AGRI that resulted from the audit on fraud prevention and detection in DG AGRI have been adequately and effectively implemented. All the recommendations have been closed.

10.12. Follow-up audit on the design and monitoring of DG AGRI Dir. J control strategy (Pillar 1 and 2)

Based on the results of the follow-up audit, the IAS assessed that three out of the four recommendations addressed to DG AGRI that resulted from the audit on the design and monitoring of DG AGRI Dir. J control strategy have been adequately and effectively implemented. All these recommendations have been closed.

For one recommendation on "*Audit strategy*", the IAS considered the recommendation as not implemented. Given the improvements already made, the IAS decided nevertheless to downgrade the criticality of the recommendation from very important to important.

10.13. IAS Follow-up audit on SAM project management in DG BUDG

Based on the results of the follow-up audit, the IAS assessed that recommendations N° 3, 6 and 7 have been adequately and effectively implemented. Due to the significant changes occurred since the initial audit in 2009, the remaining recommendations are no longer applicable. All the recommendations have been closed.

10.14. IAS Follow-up audit on risk management in DG COMM

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG COMM that resulted from the audit on risk management have been adequately and effectively implemented. All the recommendations have been closed.

10.15. 1st and 2nd Follow-up audit on management of local IT in DG DEVCO

Based on the results of the two follow-up audits performed in 2014, the IAS assessed that eight out of the twelve recommendations have been adequately and effectively implemented and 3 recommendations became obsolete. All these recommendations have been closed.

One very important recommendation was not reported implemented by DG DEVCO and requires further action.

In particular,

Recommendation N° 4 on "Local IT security plans":

The IAS agreed with DG DEVCO that not all the planned actions have been implemented. DG DEVCO finalised security plans for PADOR (September 2013), PROSPECT (November 2013) and CRIS Contract (August 2014). The security plan for PCM ROM, delayed due to a revision of the system, is ready to be approved by the system owner. No other individual or global⁸⁴ security plan has been developed so far.

10.16. Follow-up audit on the limited review of the calculation of the residual error rate in DG DEVCO

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG DEVCO that resulted from the limited review of the calculation of the residual error rate in DG DEVCO have been adequately and effectively implemented. All the recommendations have been closed.

10.17. 2nd Follow-up audit on EDF grants in DG DEVCO

Based on the result of the 2nd follow-up audit, the IAS concluded that two out of the four recommendations addressed to DG DEVCO that resulted from the audit on EDF grants and that remained open after the 1st follow-up audit have been adequately and effectively implemented. These recommendations have been closed.

Two important recommendations on "*ex-post project evaluation*" and on "*verification missions to EU Delegations*" remain open.

10.18. IAS Follow-up audit on long overdue recommendations from IAS audits on data centre operation and security (2006) and on corporate data network infrastructures and services (2008) in DG DIGIT

The original audit reports included respectively 30 and 13 recommendations, out of which 7 and 4 rated very important. The IAS has followed-up their implementation by

⁸⁴For systems classified as STANDARD, DG DEVCO could envisage having a global security plan encompassing the baseline security controls for all of them.

regularly reviewing the status of the recommendations, dedicated follow-up audit engagements and regular progress meetings with DG DIGIT and could close the majority of the recommendations. The IAS considered that three recommendations from the Data centre audit and two recommendations from the Network audit are not (fully) implemented. They include the following two very important recommendations on IT security (one from each audit) and three important recommendations:

Audit on Data Centre - Recommendation N° 5-05 - Ensure System Security:

The core of this recommendation requested DG DIGIT to "*draw up a comprehensive Data Centre Security plan, keep it up to date and be responsible for communication of the plan to all Data Centre staff*". DG DIGIT has launched a project aiming at drafting and implementing a comprehensive Data Centre Security Plan under the supervision of the ISSB (Information Security Steering Board) and of the CISO (Chief Information Security Officer).

Audit on Corporate Data Network - Recommendation N° DS5 - Ensure System Security:

The IAS considered that main parts of the recommendation on the preparation of a network security plan and on logical access to the network have not been implemented.

The IAS considered that for the very important recommendations the high risks, affecting the Commission as a whole given the corporate nature of the IT services audited, have still not been fully mitigated. DG DIGIT is progressing with their implementation, in some cases changing the focus of the actions originally planned which have become obsolete in the meanwhile, to better and more effectively mitigate the underlying risks. The IAS also welcomes the supervisory role of the ISSB in ensuring that timely and adequate measures are taken to mitigate the Commission's exposure to security risks affecting hosting and network services delivered by DG DIGIT.

The IAS invited DG DIGIT to establish a revised action plan for the outstanding recommendations with realistic but also ambitious deadlines to mitigate the outstanding risks. In the meantime, the IAS decided to close the remaining outstanding recommendations and address the risks involved in a more comprehensive way through dedicated audits in its planning cycle 2016-2018.

10.19. 2nd Follow-up audit on business continuity management in DG DIGIT

Based on the results of the 2nd follow-up audit, the IAS assessed that all the recommendations addressed to DG DIGIT that resulted from the audit on business continuity management and that remained open after the 1st follow-up have been adequately and effectively implemented. All the recommendations have been closed.

10.20. Follow-up audit on the lifelong learning programme in EACEA / DG EAC

Based on the results of the follow-up audit, the IAS assessed that four out of the eight recommendations addressed to EACEA and DG EAC that resulted from the audit on the lifelong learning programme have been adequately and effectively implemented. These recommendations have been closed.

Two very important recommendations on "*Supervisory framework*" and on "*Daily supervision by DG EAC*" and two important recommendations on "*EACEA reporting to the parent DG*" and "*Manual of procedures*" have not been reported implemented by EACEA and DG EAC and remain open.

10.21. Follow-up audit on the control strategy in EACI (now EASME)

Based on the results of the follow-up audit, the IAS assessed that two out of the four recommendations addressed to EACI that resulted from the audit on the control strategy in EACI can be closed.

Considering the progress made in the implementation of the recommendations on "*Ex-ante checks*" and on "Anti-fraud strategy" the criticality of those recommendations have been downgraded from very important to important.

10.22. Follow-up audit on IT governance and performance in EAHC (now CHAFEA)

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to EAHC that resulted from the audit on IT governance and performance in EAHC have been adequately and effectively implemented. All the recommendations have been closed.

10.23. 2nd Follow-up audit on the joint audit (IAC-IAS) on the implementation by the EIF of the competitiveness and innovation framework programme in DG ECFIN

Based on the results of the 2nd follow-up audit, the IAS assessed that all the recommendations addressed to DG ECFIN that resulted from the audit on the implementation by the EIF of the competitiveness and innovation framework programme and that remained open after the 1st follow-up have been adequately and effectively implemented. All the recommendations have been closed.

10.24. Follow-up audit on off-budget operations: EFSM in DG ECFIN

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG ECFIN that resulted from the audit on off-budget

operations: EFSM have been adequately and effectively implemented. All the recommendations have been closed.

10.25. Follow-up audit on performance of operational activities in DG ECHO

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG ECHO that resulted from the audit on performance of operational activities have been adequately and effectively implemented. All the recommendations have been closed.

10.26. 2nd Follow-up audit on IPA procurement in DG ELARG (now NEAR)

Based on the results of the 2nd follow-up audit, the IAS assessed that all the recommendations addressed to DG ELARG that resulted from the audit on IPA procurement and that remained open after the 1st follow-up have been adequately and effectively implemented. All the recommendations have been closed.

10.27. 2nd Follow-up audit on the management of local IT in DG EMPL

Based on the results of the 2nd follow-up audit, the IAS assessed that all the recommendations addressed to DG EMPL that resulted from the audit on the management of local IT in DG EMPL and that remained open after the 1st follow-up have been adequately and effectively implemented. All the recommendations have been closed.

10.28. Follow-up audit on the closure of the ESF 2000-2006 programming period in DG EMPL

Based on the results of the follow-up audit, the IAS assessed that the five recommendations addressed to DG EMPL following the audit on the closure of the ESF 2000-2006 programming period in DG EMPL remain open.

In particular, for the very important recommendations:

Recommendation N° 1 on "Preparation for closure":

The IAS noted the progress made on the 2000-2006 programming period, including DG EMPL's contribution as regards the state of play on the closure process, to the Commission communication to the European Parliament on protection of the EU budget. For the 2007-2013 period, guidelines were issued in March 2013. These were recently revised and, together with the strategy on closure, were planned to be adopted by the end of 2014. Additionally, seminars have been held with MS in 2013 and 2014 and are also planned for 2015. However, due to the further revision of the guidelines a number of related actions aimed at training staff internally, including the finalisation of the Manual of Procedure and holding information sessions with DG EMPL services, were also

delayed and will only be implemented in 2015. Therefore the IAS considered this recommendation should remain in progress until the remaining actions are completed.

Recommendation N°2 on "Checks on closure documents for the 2007-2013 period":

The IAS noted that as regards supervisory arrangements, the definition of the business requirements for the closure process in relation with the work-flow system RDIS has been achieved and meetings with the IT developers are on track. However, the development of an IT tool for the closure process is in the preliminary phase only. In addition, the IAS noted that the preparation of the methodology for checks on key closure documents and the checklists is delayed due to the late revision of the guidelines on the closure process. The methodology together with the checklists will be part of the Manual of Procedure, which will be adopted only in 2015. Given the remaining actions still to be completed, DG EMPL revised the target date for this recommendation to 30/06/2015. Therefore the IAS considered this recommendation should remain in progress until the remaining actions are completed.

Three important recommendations were not followed-up and remain open since the original target date for implementation was not reached at the time of the follow-up.

10.29. Follow-up audit on the implementation of the ESF 2007-2013 programming period in DG EMPL
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Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG EMPL that resulted from the audit on the implementation of the ESF 2007-2013 programming period in DG EMPL have been adequately and effectively implemented. All the recommendations have been closed.

10.30. 2nd Follow-up audit on the control strategy in DG EMPL
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Based on the result of the 2nd follow-up audit, the IAS concluded that the last remaining open recommendation on "Continuous quality improvement of the audit function" addressed to DG EMPL can be closed.

10.31. 3th Follow-up audit on local IT systems supporting financial management in DG ENER
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Based on the results of the 3th follow-up audit, the IAS assessed that all the recommendations addressed to DG ENER that resulted from the audit on local IT systems supporting financial management in DG ENER and that remained open after the 2nd follow-up have been adequately and effectively implemented. All the recommendations have been closed.

10.32. Follow-up audit of the European Energy Programme for Recovery (EPR) in DG ENER

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG ENER that resulted from the audit on the European Energy Programme for Recovery have been adequately and effectively implemented. All the recommendations have been closed.

10.33. Follow-up audit on the control strategy in DG ENTR (now GROW)

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG ENTR that resulted from the audit on the control strategy have been adequately and effectively implemented. All the recommendations have been closed.

10.34. 1st and 2nd Follow-up audit of DG ESTAT's preparedness to fulfil its role in the economic governance framework

Based on the results of the follow-up audits performed in 2014, the IAS assessed that all the recommendations addressed to DG ESTAT that resulted from the audit on DG ESTAT's preparedness to fulfil its role in the economic governance framework have been adequately and effectively implemented. All the recommendations have been closed.

10.35. Follow-up of audit on the control strategy in shared management in DG HOME

Based on the results of the follow-up audit, the IAS assessed that six out of the seven recommendations addressed to DG HOME that resulted from the audit on the control strategy in shared management have been adequately and effectively implemented. These recommendations have been closed.

For one very important recommendation the IAS considered that it was not fully implemented and that additional efforts are necessary.

In particular:

Recommendation N°2 on "Improvements of the ex-post strategy":

The IAS noted the progress made in drafting an audit strategy which covers both the 2007-2013 and 2014-2020 programming periods. However, the delays in adopting the legislative framework for the 2014-2020 period, particularly as regards the clearance of accounts and the conformity clearance procedure, means that the audit strategy will need to be updated to reflect these provisions. It should also provide a clearer indication of the audit resources needed for both periods, particularly for contracted out work, together with a clear explanation of how the DG intends to place reliance on the audit work performed.

10.36. 2nd Follow-up audit on HR security in DG HR

Based on the results of the 2nd follow-up audit, the IAS assessed that one recommendation addressed to DG HR that resulted from the audit on HR security and that remained open after the first follow-up has been adequately and effectively implemented. In total, eight out of the eleven recommendations have been closed after follow-up.

For two recommendations, initially rated as very important, the IAS assessed that some of the actions planned to mitigate the related risks have not been implemented. However, considering the progress made so far the criticality of both recommendations has been downgraded to important.

One recommendation, initially rated as very important, was not reported implemented by DG HR and requires further improvements. However, taking into consideration the effective implementation of some parts of the recommendation and the mitigating measures in place, the IAS decided to downgrade also the criticality of this recommendation to important.

10.37. Follow-up audit on the monitoring of EU law implementation in DG JUST

Based on the results of the follow-up audit, the IAS assessed that three out of the five recommendations addressed to DG JUST that resulted from the audit on the monitoring of the EU law implementation have been adequately and effectively implemented. These recommendations have been closed.

For two important recommendations, the IAS considered that they were not fully implemented.

10.38. 2nd Follow-up audit on management of procurement in OIB

Based on the results of the 2nd follow-up audit, the IAS assessed that all the recommendations addressed to OIB that resulted from the audit on the management of procurement and that remained open after the 1st follow-up have been adequately and effectively implemented. All the recommendations have been closed.

10.39. 2nd Follow-up audit on fraud prevention and detection in OLAF

Based on the results of the 2nd follow-up audit, the IAS assessed that all the recommendations addressed to OLAF that resulted from the audit on fraud prevention and detection and that remained open after the 1st follow-up have been adequately and effectively implemented. All the recommendations have been closed.

10.40. Follow-up audit of the joint Sickness Insurance Scheme managed by the PMO

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to PMO that resulted from the audit on the joint Sickness Insurance Scheme have been adequately and effectively implemented. All the recommendations have been closed.

10.41. Follow-up audit on the implementation of FP7 control systems in REA

Based on the results of the follow-up audit, the IAS assessed that two out of the five recommendations addressed to REA that resulted from the audit on the implementation of the FP7 control systems can be closed.

Three very important recommendations on "*Research for the benefit of SMEs theme*", "*REA's corrective actions following the AAR reservations*" and on "*Anti-Fraud Measures*" have not been reported as implemented by REA and remain open.

10.42. Follow-up audit on the closure of Cohesion Fund projects 2000-2006 in DG REGIO

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG REGIO that resulted from the audit on the closure of the Cohesion Fund projects 2000-2006 in DG REGIO have been adequately and effectively implemented. All the recommendations have been closed.

10.43. Follow-up audit on DG REGIO implementation of the 2007-2013 programming period

Based on the results of the follow-up audit, the IAS assessed that three out of the five recommendations addressed to DG REGIO that resulted from the audit on the implementation of the 2007-2013 programming period can be closed.

One very important recommendation was not reported implemented by DG REGIO and requires further action. Nevertheless, considering the partial implementation of the action plan the IAS decided to downgrade the criticality of the recommendation to important.

For one important recommendation on "*Corrective measures to reduce the error rate*" the IAS considered that it was not fully implemented.

10.44. Follow-up audit of the limited review on residual error rate in DG RTD

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG RTD that resulted from the limited review on the residual error rate in DG RTD have been adequately and effectively implemented. All the recommendations have been closed.

10.45. Follow-up audit on IT governance and performance in DG SANCO (now SANTE)

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG SANCO that resulted from the audit on IT governance and performance in DG SANCO have been adequately and effectively implemented. All the recommendations have been closed.

10.46. Follow-up audit on the control strategy in DG SANCO (now SANTE)

Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG SANCO that resulted from the audit on the control strategy have been adequately and effectively implemented. All the recommendations have been closed.

10.47. Follow-up audit on the handling of sensitive information in SJ

Based on the results of the follow-up audit, the IAS assessed that seven out of the twelve recommendations addressed to SJ that resulted from the audit on the handling of sensitive information have been adequately and effectively implemented. All these recommendations have been closed.

Concerning the remaining five very important recommendations, the IAS considered that some of the actions planned to mitigate the risks identified at the time of the audit have not been completed.

In particular:

Recommendation N° 1 on roles and responsibilities at central and team level:

At the beginning of 2013 SJ set up a permanent working group created to supervise the management of sensitive information and to ensure an effective coordination at central level. The IAS notes that it has only met twice so far and there is no evidence of an effective steering of the process. Moreover, there is no evidence of a security-oriented risk assessment and no security plan has yet been endorsed. At the legal team level, there is still no clear definition and recognition of the role of 'Documentalists' in the process of handling sensitive information.

Recommendation N° 2 on policy and procedures for handling sensitive information:

SJ implemented some procedures for marking, physical security, use of Information Systems and transmission and disposal of documents. However, this guidance has to be complemented by a security policy, a definition of "sensitive information", clear description of the roles and responsibilities of the actors involved in the process and guidance to assess the sensitivity of the information handled in the context of a litigation or request for advice.

Recommendation N° 3 on security incident reporting and management:

SJ staff has been instructed about whom they have to inform in case of threats to the operational security of SJ or in case of threat to the computer or systems security. However, they are not requested to analyse the causes of security breaches and to identify the potential consequences or the type of response to be provided. According to SJ, the number of security incidents detected so far (two) does not justify the development of a complete process to manage and report on security incidents. In this respect, the IAS observed that the lack of a clear definition of "security information" and of roles and responsibilities of the actors in the process (recommendation No. 2), further guidance and monitoring on handling EU restricted information (recommendation No. 3) and of appropriate training/awareness raising initiative (recommendation No. 10) does not ensure that all security incidents have been identified and adequately communicated.

Recommendation N° 6 on handling EU restricted documents:

The existing guidance does not provide instructions on the physical handling of classified information. In addition, there is no monitoring activity in place to ensure correct implementation of the procedure for handling EU restricted information.

Recommendation N° 10 awareness and training on HSI and information security:

There is no evidence of the provision of specific training in ethical issues or awareness raising initiatives.

10.48. IAS/IAC joint Follow-up audit on monitoring the implementation of EU law in DG TAXUD
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Based on the results of the follow-up audit, the IAS assessed that all the recommendations addressed to DG TAXUD that resulted from the audit on monitoring the implementation of EU law in DG TAXUD have been adequately and effectively implemented. All the recommendations have been closed.

10.49. Follow-up audit on the management of local IT in DG TRADE

Based on the results of the follow-up audit, the IAS assessed that eight out of the twelve recommendations addressed to DG TRADE that resulted from the audit on the management of local IT in DG TRADE have been adequately and effectively implemented. All these recommendations have been closed.

For two very important recommendations the IAS considered that they were not fully implemented and that additional efforts are necessary for the effective implementation of the action plans.

In particular:

Recommendation N°1 on the role of the IT Steering Committee (ITSC):

In 2013 DG TRADE approved an ITSC charter describing the objective, tasks, composition, meetings frequency and agenda of this Committee. However, in terms of implementation, the IAS observed that some key tasks are not effectively performed, in

particular the monitoring of the status of IT projects (and in general of the IT services provided to DG TRADE) by means of appropriate reporting and key performance indicators, and the monitoring of IT-related risks. In this respect, DG TRADE has not yet defined the nature and content of the monitoring function (which inputs/deliverables should be provided to the ITSC, the kind of projects or Information Systems to be monitored, the KPIs to be used, the IT Risks to be reported to the ITSC, etc.).

Recommendation N° 2 on the management of IT related risks in DG TRADE:

DG TRADE's risk management process includes a provision on the identification of IT risks and the IT Unit has provided assistance and guidelines to operational units for the assessment of security risks. However, there is no evidence of relevant IT risks being assessed and consolidated and that the results of the assessment have been escalated to the ITSC for review and discussion.

Concerning recommendation N° 10 on "***Review of Local System Administrator's activities logs***" (rated important), DG TRADE has not found an acceptable cost/benefit mitigation action and the associated risk of not implementing the recommendation has been accepted by the Director-General. Consequently, the IAS closed this recommendation.

One important recommendation on "***Security plans***" was not reported implemented by DG TRADE and remains open.

11. LIST OF ACRONYMS

Acronym	Description
AA	Audit Authority
AAL	Ambient Assisted Learning
AAR	Annual Activity Report
ABAC	Accrual Based Accounting
ABB	Activity Based Budgeting
ABM	Activity Based Management
ACRs	Annual Control Reports
AD	Windows Active Directive
AIRs	Annual Implementation Reports
APC	Audit Progress Committee
BPS	Basic Payment Scheme
BS	Budget Support
CAFS	Commission Anti-Fraud Strategy
CAP	Common Agricultural Policy
CAs	Certifying Authorities
CAS	Common Audit Service
CCs	Competence Centres
CED	Commission Enterprise Directory
CF	Cohesion Fund
CFSP	Common Foreign and Security Policy
CISE	Common Information Sharing Environment
CISO	Chief Information Security Officer
CMO	Common Organisation of Markets
CONT	European Parliament's Budgetary Control

	Committee
CPCC	Civilian Planning and Conduct Capability
CPR	Common Provisions Regulation
CRaS	Common Representative audit Sample
CRIS	Common Relex Information System
CRR	Cumulative Residual Risk/Error Rate
CSC	Common Support Centre
CSDP	Common Security and Defence Policy
CUD	Central User Directory
DAS	Declaration of Assurance
DAs	Delegated Acts
DEVE	European Parliament's Committee on Development
DGs	Directorates-General
DO	Desk Officer
EAB	Enterprise Architecture Board
EAC	Ex-Ante Conditionalities
EAFRD	European Agricultural Fund for Rural Development
EAGF	European Agricultural Guarantee Fund
EAMR	External Assistance Management Report
EAMRs	External Assistance Management Reports
EBA	European Banking Authority
EC	European Commission
ECA	European Court of Auditors
ECAS	European Commission Authentication Service
ECB	European Central Bank
EDF	European Development Fund

EFA	Ecological Focus Areas
EIB	European Investment Bank
EIOPA	European Insurance and Occupational Pensions Authority
EIT	European Institute of Innovation and Technology
EMFF	European Maritime and Fisheries Fund
EPMs	Engagement Planning Memoranda
EPSO	European Personnel Selection Office
ERC	European Research Council
ERDF	European Regional Development Fund
ES	European Semester
ESA	European Supervisory Authorities
ESF	European Social Fund
ESIF	European Structural and Investment Funds
ESMA	European Securities and Markets Authority
ESOs	European Semester Officers
EUD	European Union Delegation
EUSR	EU Special Representatives
F4E	Fusion for Energy
FAFA	Financial and Administrative Framework Agreement
FI-TAP	Financial Instruments Technical Advisory Platform
FP7	Seventh Framework Programme for Research and Technological Development
FPA IO	Framework Partnership Agreement for other International Organisations
FR	Financial Regulation
GU	Geographical Units

HIP	Humanitarian Intervention Plan
HoD	Head of Delegation
HR	Human Resources
HRM	Human Resources Management
IACS	Integrated Administrative and Control System
IAF	Integrated Analytical Framework
IAM	Identity and Access Management
IAs	Implementing Acts
IAS	Internal Audit Service
ICRC	International Committee of the Red Cross
IFDM	Integrated Fisheries Data Management
IFRC	International Federation of the Red Cross and Red Crescent Societies
IfS	Instrument for Stability
IMDA	Indirect Management Delegation Agreements
IO	International Organisations
IOM	International Organisation for Migration
IPARD	Instrument for Pre-accession Assistance for Rural Development
ISSB	Information Security Steering Board
ITSC	IT Steering Committee
JRC	Joint Research Centre
JTI	Joint Technology Initiatives
JUs	Joint Undertakings
KPI	Key Performance Indicator
LPIS	Land Parcel Identification System
MA	Managing Authority
MASP	Multi-Annual Strategic Plan

MCSs	Management and Control Systems
MFF	Multiannual Financial Framework
MoU	Memorandum of Understanding
MP	Management Plan
MS	Member States
NGOs	Non-Governmental Organisations
OP	Operational Programme
PA	Partnership Agreements
PAs	Paying Agencies
PICS	Programme Information and Communication Space
PMM	Programme Management Meeting
PPAG	Public Procurement Advisory Group
PPMT	Public Procurement Management Tool
PRAG	
RACER	Relevant, Accepted, Credible, Easy and Robust
RAFS	Research family Anti-fraud Strategy
RAL	Reste à Liquider
RER	Residual Error Rate
SAM	State Administrative Manual
SDAOs	Sub-Delegated Authorising Officers
SG	Secretariat General
SLAs	Service Level Agreements
SMART	Specific, Measurable, Achievable, Relevant, Timely
SME	Small and Medium Enterprise
SPP	Strategic Planning and Programming
SWD	Staff Working Document

TAPs	Technical and Administrative Provisions
TFEU	Treaty on the Functioning of the European Union
TG	Thematic Groups
TS	Technical Standards
UCC	Union Customs Code
WFS	Workforce Simulator
WWD	Worldwide Decision